
Revenue

Factors Underlying Current Revenue Estimates

Revenue limitations provide a challenging environment for maintaining a balanced budget in FY 2002 and FY 2003. The impact of the national recession, the September 11 terrorist attack, and other special factors that affect the timing and amount of D.C. revenues all contribute to the constrained revenue picture. The special factors include one-time events and changes in the District's tax policy, which include the return to annual assessment of District real property, the impact of the Tax Parity Act of 1999, and other legislative decisions.

The Recession Appears to be Ending

In November 2001, the National Bureau of Economic Research's Business Cycle Dating Committee announced that it had determined that a peak in business activity occurred in the U.S. economy in March 2001. This marked the end of a ten-year expansion—the longest ever—and the beginning of a recession. By early 2002, though, there were powerful signs that the recession was ending, making it one of the briefest in history. However, the pace and breadth of any recovery is still uncertain. Around the country, much of the impact of the recession was felt by the manufacturing sector. Since there is little manufacturing activity in the District, the District did not experience as severe a downturn as some other parts of the country. Some economists who track the economic performance of

the D.C. metropolitan area estimate an August/September 2001 recession starting date. Other economists believe that the region has not dropped into a recession.

Still, the falloff in the District's economy was noticeable. In April, the growth of jobs located in the District compared to one year earlier went under 1 percent for the first time in two years, and by December job growth had fallen to 0.2 percent. Similarly, sales tax collections for the last quarter of FY 2001 (which records tax liabilities incurred in June, July, and August) were down 0.2 percent from the same quarter of the preceding year. Tax collections for the first quarter of FY 2002 (adjusted for certain one-time events) were down 6.5 percent from the first quarter of FY 2001.

As the budget is being prepared, many national economic forecasts, as represented by the Congressional Budget Office and the Blue Chip Economic Indicators, suggest that the national recession will end during Fiscal Year 2002 and that significant economic growth with low inflation will resume in FY 2003, albeit at lower rates than in the period just before the recession (see Table 4-1). The pace of national recovery, and the recovery in the District, is made somewhat uncertain by the fact that sectors that often help to lead the economy out of recession—especially automobiles and housing—have remained fairly strong and therefore are not likely candidates to accelerate recovery.

Table 4-1

Outlook for the U.S. National Economy-Real and Nominal Gross Domestic Product, Fiscal Years 2000-2003

(Percent change from the previous fiscal year)

	2000 actual	2001 estimate	2002 estimate	2003 estimate
Real GDP				
CBO	4.6	1.8	0.2	3.6
Blue Chip Indicators	4.6	1.7	0.8	3.4
Nominal GDP				
CBO	6.7	4.1	1.6	5.6
Blue Chip Indicators	6.7	4.0	2.2	5.2

Source: (1) CBO, Budget and Economic Outlook, Fiscal Years 2003-2012, January 2002; (2) Blue Chip Economic Indicators, February 2002.

The FY 2003 D.C. budget and financial plan assume that the recovery will be undramatic but steady, boosted by the national recovery. The true impact on the District's economy, though, is complicated by the aftermath of September 11.

Impact of September 11

For the District, the terrorist attacks had an immediate impact on the District's economy and its revenue collections. Since the District was viewed as a potential target for future attacks, the federal government instituted a wide range of measures to tighten security. Reagan Washington National Airport was shut down. Closures of the Capitol, the White House, and other national monuments were among the other measures initially taken, as were street closings and barricades. These actions contributed to the perception that Washington, D.C. was unsafe. As a consequence, the District's tourism- and travel-related businesses—hotels, restaurants, hotel and restaurant suppliers—experienced a significant drop in sales. Layoffs and reduced hours for workers who retained their jobs were common in these businesses. In turn, District revenues from income and sales taxes slumped. In the first quarter of FY 2002, the transfer of revenue to the D.C. Convention Center (which is funded entirely by taxes on hotels and restaurants) was down 20 percent from the same quarter of FY 2001.

At Reagan Washington National Airport—the arrival point for many of the District's business and convention travelers, and tourists—the

numbers of commercial passengers dropped by 68 percent in September and 80 percent in October compared to the prior year. This reversed the passenger activity pattern prior to September 2001. Up to that point, every month of 2001 had seen an increase in the number of commercial passengers compared to the same month of the previous year. Gradually, Reagan National is being allowed to increase the number of flights and to serve more of the cities that had been served before September 11. On March 1, 2002, Reagan National was allowed to operate up to 614 flights to 69 cities—about 77 percent of pre-September 11 activity. However, until the airport is fully operating again, there is likely to be a continuing drag on the District's economy.

The District's hotels were hit hard in the aftermath of September 11. Hotel occupancy plummeted to 25.1 percent the week of September 16-22. This was a 72 percent drop from the same week of the prior year. For the entire month of September 2001, hotel occupancy was down by about 42 percent compared to September 2000. Revenue per available room (total room revenue divided by the number of rooms) dropped by 46 percent in September 2001 compared to September 2000. However, there have been signs of recovery in the District's hotel industry. October's drop in the occupancy rate compared to the October 2000 occupancy rate was just under 27 percent. November's drop was about 15 percent, December's difference was only about 7 percent, and January 2002's difference was approximately 9 percent.

Revenue per available room also has shown an improving trend. By December 2001, room revenue was down by just over 15 percent compared to the prior year. In January 2002, revenue per available room was off by 32 percent compared to January 2001. However, this difference does not provide an accurate picture of current conditions since room rates were at abnormally high levels in January 2001 due to the Presidential Inauguration. With the improvements in occupancy and room revenue hotel industry representatives have reported that workers who were laid off immediately after September 11 are being brought back to work.

The restaurant industry also experienced a sharp drop in business after the September 11 attacks due to the decline in travel to the District and the reluctance of people to go out to eat at District restaurants. As with the hotel industry, restaurants were also forced to lay off employees because of the reduction in customers and no indication as to how soon people would resume eating out. Over time, there has been a strong resurgence in business due in part to two successful "Restaurant Week" promotions and to people feeling more comfortable about their security. Initially, neighborhood and family-oriented businesses rebounded and it appears that high-end restaurants are now getting back to more normal levels of businesses.

While the District's hotel and restaurant industries show signs of recovering, it is still too early to say that they are out of the woods. Their long-term recovery will be closely tied to the perception that potential visitors to the District have about their security traveling to the District and once they are in the District. At this time, District tourism officials are working hard to promote the District as a tourist destination. Such efforts are paying off in that conventions that have been booked have not cancelled. However, the question remains as to whether convention attendance will be as high as would have been the case had September 11 not occurred. Many hospitality industry representatives have indicated that more will be known in the Spring of 2002 when tourism activity in the District normally begins to pick up. Some recent reports raise questions as to how strong the recovery in tourism will be in

2002. These reports indicate that many school groups who normally travel to the District will not be coming this year.

The events of September 11 may have an adverse long-term impact on the District's commercial real estate sector. Representatives from the industry have indicated there is a possibility of a dispersal of firms from the District to locations in Virginia and Maryland in response to security concerns. With the economic downturn in the dot-com industry, Northern Virginia has a glut of lower cost office space, which may provide further incentive for firms to disperse their activities. Another concern is that terrorism insurance may adversely affect the commercial office market—particularly for buildings in the District and for buildings that have government users. If there is a problem getting terrorism insurance, it will be hard to sell the buildings later.

One potential offset to the decline in the sectors discussed above is an increase in federal government security-related spending. The federal budget proposes increased spending for national defense and homeland security. Much of that spending is likely to occur in the D.C. metropolitan area. However, that spending is expected to benefit businesses outside of the District.

The Fiscal Situation in Other Jurisdictions

The District is not alone in facing budget pressures. States and localities throughout the country are encountering increased pressures as a consequence of the recession and the effects of September 11. On a daily basis, newspaper headlines throughout the country report revenue running below projections, and proposals for tax hikes or spending cutbacks to plug budget gaps.

A report (The Outlook for State Tax Revenues) prepared by Economy.com for the February 2002 Winter Meeting of the National Governors Association indicates that, as of February 2002, 24 states were in recession and 17 states were near recession. Only 9 states were identified as expanding. State revenues across all major tax sources have suffered as a consequence. Corporate taxes have fallen due to a sharp decline in corporate profitability. Personal income taxes have suffered with the decline in capital gain realizations. Sales taxes have been affected by weaker

retail sales growth, and reduced tourism and business travel. Economy.com reports that only property taxes and motor vehicle and fuel related revenues are not suffering.

The budget surpluses that states had been reporting have disappeared. A January 2002 survey of legislative fiscal directors conducted by the National Conference of State Legislatures (NCSL) showed that in the opening months of FY 2002 nearly all states had revenues below projections, more than half had expenditures over budget, and many were taking a number of steps to respond to these fiscal pressures (see Table 4-2 below). When these responses are compared to NCSL's initial survey for FY 2002, which was conducted in October 2001, the rapid deterioration in state fiscal conditions is evident.

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, tracks state tax revenue collections. For the October-December 2001 quarter, the Rockefeller Institute reported that state tax revenue fell by 2.9 percent from the same quarter in 2000. This preliminary estimate followed a drop in state tax revenues of 3.1 percent in July-September 2001 compared to the same period in 2000. The July-September drop in state tax revenues was the first decline in a decade, although the prior few quarters were showing weakness in state revenue collections.

The Rockefeller Institute also looked at changes in three major taxes—the personal income tax, the corporate income tax, and the sales tax. State personal income taxes fell in both the July-September 2001 and the October-

December 2001 quarters. The declines compared to the same quarters of the prior year were 3.7 percent for the July-September quarter and 3.0 percent for the October-December quarter. State corporate income tax revenues, which have been more volatile over time, declined in the October-December 2001 quarter by 34.5 percent compared to 2000. This was the fifth straight quarter where state corporate income tax revenue was below the prior year's level. July-September 2001 state sales tax revenue was at approximately the same level as the July-September 2000 quarter. The preliminary figures for October-December 2001 show an 0.9 percent increase over the same period in 2000.

The Rockefeller Institute's report for the October-December 2001 quarter also showed 23 states having tax revenues below the same quarter in 2000. In the other 20 states for which revenue figures were available for the entire quarter, quarterly revenues were even with or above those in the prior year.

U.S. cities are also experiencing budget pressures. One example is Los Angeles where officials project a \$250 million shortfall in their FY 2003 budget. A \$150 million decline in tax revenues—due in part to less tourism—and increased costs of workers' compensation, health care, and police reform are blamed for the shortfall. Officials have indicated that this estimated shortfall did not take into account the city's increased security costs. Making the situation even more difficult is that Los Angeles is using up the city's surplus to meet shortfalls in its current budget. Atlanta is another city that has had to focus on budget

Table 4-2

The Fiscal Situation Around the Country

State Survey Responses	January 2002 Survey	October 2001 Survey
Had revenues below projections	46	44
Had expenditures over budget	29	17
Had implemented or are considering budget cuts or holdbacks	39	28
May use reserve funds to balance the FY 2002 budgets	25	20
Have taken other measures (e.g., hiring freezes, capital project cancellations, travel restrictions) to control spending	30	14

Source: National Conference of State Legislatures, State Fiscal Outlook for FY 2002-January Update

shortfalls. Officials there see a \$80 million gap between projected FY 2002 revenues and expenditures. This gap is about 20 percent of Atlanta's General Fund. A third example is New York City where the mayor's FY 2003 budget proposal would push the city into deficit financing for the first time in 25 years. The city's projected deficit is \$4.8 billion in the next fiscal year and about \$5 billion in each of the next two years. The city's total budget is approximately \$42 billion.

Closer to home, Maryland and Virginia are also experiencing reduced revenue collections (see Table 4-3 below). Both states have reduced estimated revenues for FY 2002 from prior estimates, and are forecasting much more moderate growth for FY 2003 as their economy improves.

Special District Factors: Tax Policy Changes and One-time Events

The activity to re-engineer the government of the District of Columbia influences the revenue stream. Specifically, the District has made multiple decisions to reduce tax rates, change tax bases, and improve the tax structure. These decisions will affect the District's revenue collections in future years.

Annual Assessment of Real Property

In Fiscal Years 1999, 2000 and 2001, the District operated under a system of triennial assessment of real property. Under this system, properties in the District were divided into three assessment groups for assessment purposes. Each group represented approximately a third of the total value of taxable real property in the District. Under the triennial assessment system, decreases in assessed value were immediately realized, while increases in assessed value were phased in over a three-year

period. The District's triennial assessment cycle reduced the annual growth rate of the real property tax because increases in assessed value were not fully realized at the time of reassessment. The immediate reduction in tax liability for properties experiencing a decrease in assessed value further reduced the growth rate in the real property tax base. When combined, these factors reduced the volatility and future growth potential of the real property tax.

Beginning in FY 2002, the District began its transition back to an annual assessment system. During this transition, one triennial group will shift into annual assessment each year through FY 2004. By FY 2004, all real property in the District will be reassessed on an annual basis. The return to annual assessment will not only result in assessed values that are more representative of market values, but will also allow for a more natural increase in the growth potential for the real property tax base.

Suspension of Individual Income Tax Rate Reductions

The Tax Parity Act of 1999 was designed to incrementally reduce certain tax rates each year beginning in Tax Year 2000 until fully implemented in Tax Year 2004. The Act included rate reductions in the individual income tax, the real property tax, and the franchise tax. The taxable income levels that define individual income tax brackets were changed. Personal property depreciation rates were accelerated and a threshold was introduced for payment of the personal property tax. Other provisions included elimination of the Arena Fee for those businesses with less than \$2 million in District gross receipts, elimination of net operating loss carry-back and provision of a District-specific net operating loss provision, and elimination of the sales tax on Internet access.

Table 4-3

Percentage Increase from Previous Year in Revenues in Maryland and Virginia, Fiscal Years 2000-2003

	FY 2000 actual	FY 2001 actual	FY 2002 estimated	FY 2003 estimated
Maryland	+8.2	+6.3	-2.0	+1.9
Virginia	+10.5	+3.1	+0.7	+2.2

Source: Maryland Board of Revenue Estimates and Virginia Secretary of Finance

The provisions to be phased-in each year of the plan can be halted if the Chief Financial Officer (CFO) of the District of Columbia determines that (a) the accumulated fund balance for the prior year is below five percent of the General Fund operating budget of that year; (b) gross domestic product (GDP) growth, as estimated by the Congressional Budget Office (CBO), is below 3.5 percent for the current year; or (c) inflation-adjusted growth in GDP, as estimated by CBO, is below 1.7 percent for the current year.

In January 2002, the CBO released its projections for the federal budget and the economy (The Economic and Budget Outlook: Fiscal Years 2003-2012). For Calendar Year 2002, the CBO forecasts a 2.2 percent increase in GDP and a 0.8 percent increase in real, or inflation-adjusted, GDP. Both of these rates are below the “triggers” for halting the phase-in of the individual income tax rate reductions. Consequently, for Tax Year 2002, individual income tax rates will remain at Tax Year 2001 levels. If CBO’s current economic forecast for Calendar Year 2003 (6.1 percent growth in GDP and 4.1 percent growth in real GDP) holds, the individual income tax rate reductions will resume in Tax Year 2003.

The suspension of the rate reductions for Tax Year 2002 does not affect the bottom tax bracket (the first \$10,000 of taxable income) since no rate reduction was scheduled for Tax Year 2002. However, in Tax Year 2002, the tax rate for the middle tax bracket (taxable income over \$10,000, but not over \$30,000) will remain at 7.5 percent rather than dropping to 7.0 percent. In addition, the rate for the top bracket (taxable income over \$30,000) will remain at 9.3 percent in Tax Year 2002 instead of dropping to 9.0 percent. The higher tax rates associated with the top two brackets means that the suspension of the individual income tax rate reductions for Tax Year 2002 will have a beneficial impact on FY 2002 revenues—revenue will be greater than it would have been had the rate reductions taken place. Thus, the suspension of the rate reductions helps to offset the revenue losses resulting from the national recession and the aftermath of September 11.

Under current law, rate reductions will resume in Tax Year 2003 with both the Tax Year

2002 and Tax Year 2003 rate reductions. This “double” rate reduction will result in a larger year-to-year drop in revenue from the individual income tax than would have occurred had the Tax Year 2002 rate reduction taken place as scheduled. In Tax Year 2003, the bottom bracket tax rate will drop from 5.0 percent to 4.5 percent, the middle bracket rate will drop from 7.5 percent to 7.0 percent, and the top bracket rate will drop from 9.3 percent to 8.7 percent. Additionally, the top bracket threshold will increase as scheduled in Tax Year 2003 from \$30,000 to \$40,000.

Removal of Certain Items from the General Fund Local Revenue

The General Fund comprises five revenue types: Local, Federal Grants, Private Grants, Other, and intra-District. Only Local Revenue is not dedicated to a specific purpose and is available for general financing.

Local Fund revenues in FY 2002 and subsequent years are reduced because certain items have been removed from General Fund Local Revenues. All revenue from Alcoholic Beverage Licenses has been diverted to Other revenue to be used exclusively by the Alcoholic Beverage Regulation Administration. This results in a decrease of \$1.4 million in General Fund Local Revenue in FY 2002. Also, a portion of the revenue from Right of Way fees is being diverted to Other Revenue during FY 2002. In FY 2002, \$12 million will be diverted from General Fund Local Revenue. Beginning FY 2003, all Right of Way fees will be collected in the Local Roads and Maintenance Fund and will no longer contribute to the general fund. This will result in a \$24.5 million decrease in General Fund Local Revenue for FY 2003 compared to FY 2002.

Special One-time Occurrences that Affect Year-to-Year Revenue Growth

Revenue growth in FY 2001 and FY 2002 was affected by several significant one-time occurrences. One-time receipts of \$88 million for the corporate franchise tax accounted for almost 40 percent of the entire revenue increase for FY 2001. Conversely, refunds due to court settlements from prior years are expected to decrease collections in FY 2002.

Mayor's Proposals

Mayor Williams has made a number of proposals that impact General Fund revenue. These include:

- Suspension of further individual income tax rate reductions under the Tax Parity Act,
- Specification of a trigger that could reinstate the individual income tax rate reductions previously scheduled for FY 2002,
- Inclusion of the Council's action to impose a 25 percent cap on real property tax assessment increases for owner-occupied housing,
- Modification of the Housing Act of 2001,
- Preservation of revenues from the estate tax, and
- Increasing fines for parking violations.

Suspension of the Tax Parity Act's Individual Income Tax Rate Reductions

As described earlier, the Tax Parity Act of 1999 established a series of individual income tax rate reductions. The scheduled marginal tax rate reductions for Tax Year 2002 were suspended as a consequence of the Congressional Budget Office's January 2002 economic growth projections for calendar year 2002. Thus, the schedule of individual income tax rates for Tax Year 2002 remains the same as for Tax Year 2001. Under current law, the rate reductions would resume in Tax Year 2003, provided that the CBO's economic growth projections for calendar year 2003 are above the Tax Parity Act's "trigger" for rate suspension.

The Mayor's proposal suspends all future reductions in individual income tax rates so that the current three marginal tax rates—5.0 percent, 7.5 percent, and 9.3 percent—would remain unchanged. The current taxable income brackets—\$0-\$10,000, over \$10,000 but not over \$30,000, and over \$30,000—would also remain unchanged. The Tax Parity Act's franchise tax cuts would continue as scheduled. Under the Mayor's proposal, the amount of revenue "saved" would be \$77.2 million in FY 2003, \$141.7 million in FY 2004, \$143.7 million in FY 2005, and \$146.2 million in FY 2006.

Specification of a Trigger to Reinstate Previously Scheduled Individual Income Tax Rate Reductions

The Mayor also proposes a "positive" trigger that could reinstate in FY 2004 the income tax rate reductions previously scheduled for FY 2002. Should this trigger activate, then the marginal individual income tax rate for the middle tax bracket (taxable income over \$10,000, but not over \$30,000) would drop from 7.5 percent to 7.0 percent and the rate for the top bracket (taxable income over \$30,000) will drop from 9.3 percent to 9.0 percent. The marginal rate for the first tax bracket (the first \$10,000 of taxable income) would remain at 5.0 percent since no rate reduction for this tax bracket was scheduled for Tax Year 2002. These rates apply to taxable income received starting January 1, 2004.

Under the Mayor's proposal, this rate reduction trigger activates when both of two conditions are met:

- The FY 2002 Comprehensive Annual Financial Report shows General Fund local source revenues exceed the FY 2002 revenue estimate contained in the approved 2003 Budget and Financial Plan prepared for the Congress, and
- Unreserved amounts in the total fund balance equal or exceed \$45 million as reported in the FY 2002 Comprehensive Annual Financial Report.

The expected revenue cost in FY 2004 of this proposal is about \$35 million.

Cap on Real Property Tax Assessment Increases

As described above, in FY 1999 through FY 2001, the District operated under a triennial assessment system. Under this system, properties in the District were divided into three assessment groups and were to be assessed once every three years. Beginning in FY 2002, the District began a transition back to an annual assessment system so that by FY 2004, all real property in the District will be assessed on an annual basis. Last year when Tri-Group One properties received a new assessment—their first in three years—there was a significant percentage increase in assessed values, particularly in sections of the District that

benefited from the renewed interest in living within the District. This year, many Tri-Group Two properties have experienced similarly large percentage increases in their assessed values.

The 25 percent cap is designed to alleviate some of the financial burden imposed on some homeowners by fully taxing the increase in assessed value. The homeowner's property tax liability would be capped at 25 percent above the previous year beginning in FY 2003. This cap applies only to owner-occupied property. The expected revenue cost in of this proposal is \$15.5 million in FY 2003, \$18.5 million in FY 2004, \$4.0 million in FY 2005, and \$3.5 million in FY 2006.

Modification of the Housing Act of 2001

The Housing Production Trust Fund provides financial assistance for housing available to low and moderate-income families and individuals. Title V of the Housing Act of 2001 creates additional funding sources for the Housing Production Trust Fund. Beginning in FY 2003, 15 percent of the District's real estate transfer taxes and 15 percent of deed recordation taxes will be deposited into the Trust Fund. Under Title V, the Trust Fund also receives the proceeds from the District's sale of abandoned or deteriorated properties it acquires as a result of the housing initiative in the FY 2001 budget.

The Mayor's proposal delays the full implementation of Title V from the initial implementation date of October 1, 2002 to October 1, 2003. In addition, in FY 2003, the Mayor's proposal transfers 7.5 percent of the District's real estate transfer taxes and 7.5 percent of deed recordation taxes to the Trust Fund, rather than the 15 percent in current law. The revenue generated by this proposal is estimated to be \$19.4 million in FY 2003, \$11.6 million in FY 2004, \$12.3 million in FY 2005, and \$13.3 million in FY 2006.

Preservation of Estate Tax Revenue

Currently, the District of Columbia takes advantage of an exclusion for state death taxes written into federal law. In effect, the District receives as revenue the total amount allowable under federal law as a credit against a decedent's federal estate tax liability. In May 2001, the Congress approved

The Economic Growth and Tax Relief Act of 2001. This legislation phases out the federal estate tax through a combination of lower estate tax rates, higher exemption amounts, and lower state credit percentage amounts. As a consequence of the phase-out, District's revenue from the estate tax is projected to decrease. Once the state credit is eliminated in 2005, the District would no longer receive any estate tax revenue.

The Mayor proposes to make clarifying changes to Chapter 37, Title 47 § 301 to preserve the District's revenue from estate taxes at current levels while the federal government phases out the federal estate tax. Under the Mayor's proposal, the amount of revenue preserved is estimated to be \$25 million in FY 2003, \$40 million in FY 2004, \$56 million in FY 2005, and \$58 million in FY 2006.

Increasing Fines for Parking Violations

The District has a schedule of fines that applies to various types of parking violations, such as expired meter, residential parking, no parking anytime, parking in alley, and no parking/street cleaning. Under the Mayor's proposal, these fines are increased to generate an additional \$7.8 million per year in FY 2003 through FY 2006.

Continuing Fiscal Pressures

The fiscal outlook presented below must be viewed with caution. The District's structural imbalance—the imbalance between the District's long-run required expenditures and the long-run revenues the District can generate, given its limited revenue base—remains, and it will have an impact on the future stream of revenues. The District's tax system does a poor job of connecting economic activity to revenues. A part of the problem is that the District can tax only about one third of the income produced within its boundaries. In addition, the tax structure has not kept pace with the changes in technology that are driving economic growth. Finally, some of the District's taxes are simply unstable revenue sources. Forecasting risks and the restrictions imposed by the budget and revenue estimating cycle also contribute to continuing fiscal uncertainties.

Federal-City Issues

The substantial presence of the federal government within the District of Columbia creates unique municipal funding and service challenges for the District government. The District provides extensive, critical services to the federal government and workforce, including local street maintenance, police, fire and emergency services, and trash collection. In addition, the federal government imposes extenuating, unreimbursed service requirements on the District because of its presence. These requirements include public safety services for federal-related parades, demonstrations and marches in the District. September 11—and the succeeding anthrax scare—highlights the District’s status as a first-response service provider for vital services to the federal government such as security, communications, and public health.

The District provides these services on a unique, restricted tax base. These restrictions, which follow, impact the largest components of the District’s tax base.

Federally owned real estate, which comprises 42 percent of District property by land area, is exempt from real and personal property taxes. Other tax-exempt organizations—many of which are specifically exempted from taxation by federal law—reflect an additional 11 percent of real property.

Because the federal prohibition on the District’s taxing nonresident income, the District cannot tax 66 percent of the income earned within its borders. This means that 34 percent of the District’s income tax base subsidizes the public services that the District provides its nonresident workers.

Table 4-4

Comparative State & Local Tax Burdens: DC, MD, and VA

(D.C. Indexed to 100)

Owner Occupied Households*	D.C.	Montgomery County	Prince George’s County	Alexandria	Arlington County
\$50,000 income					
Single Taxpayer	100	97	103	84	82
Married Family	100	107	115	98	95
\$100,000 income					
Single Taxpayer	100	94	94	77	75
Married Family	100	96	101	83	81
\$150,000 income					
Single Taxpayer	100	87	92	74	73
Married Family	100	87	92	79	78
Business**	D.C.	Montgomery County	Prince George’s County	Alexandria	Arlington County
Retail	100	62	71	90	88
Construction	100	55	71	118	115
Real Estate	100	64	70	83	82
Banking	100	66	70	76	75
Restaurant	100	67	70	73	72
Hotel	100	65	70	80	79
Business Services	100	55	71	118	115

Source: Office of Research and Analysis

Notes:

* Includes income, sales, and real property taxes. All taxpayers assumed to be homeowners.

** Franchise, and personal and real property tax paid by a DC taxpayer.

In addition to these mandated exemptions, Congressionally-imposed restriction on the height of District buildings limits taxable office and residential space. These restrictions reduce property tax revenues (and could have spillover effects into income, sales and other taxes) by artificially restricting the property tax base. Because D.C. relies on a constrained base to provide its services, these tax base limitations contribute high comparative tax rates in the District in comparison to surrounding jurisdictions. Table 4-4 compares the District's tax burden to that of surrounding jurisdictions on several measures.

The combination of the District's unreimbursed expenditures and constrained revenue base creates a structural imbalance in District finances. To maintain tax and service levels that are competitive with surrounding jurisdictions on a long-term basis, the District must address the fundamental sources of this imbalance.

Forecasting Risks

As with any predictions of the future, there will be deviations from the revenue forecast. Small risks include deviations from the forecast rate of increase in Gross State Product and personal income—a one percent error in these factors would adjust the estimates of income and sales tax revenues by tens of millions of dollars. Economic growth that is much less or much more robust than that forecast would have a major impact on these estimates.

Other risks associated with changes in tax bases that are difficult to anticipate can add or subtract tens of millions of dollars. Estate tax collections, for example, depend to a great extent on when wealthy persons die and their estates are settled. Changes in the pace of real estate transactions or refinancing of property affect collections of deed recordation and transfer taxes both of which have experienced significant growth in the past several years.

Restrictions Imposed by the Budget and Revenue Estimating Cycle

The revenue estimating cycle of the District of Columbia is unique and interferes with best budget practices. Unlike other jurisdictions, each budget must be approved by the U.S. Congress,

requiring a long lead-time between budget preparation and execution, whether the budget is original or a proposed supplement to an already adopted budget. During a budget year, if revenue is stronger than expected, the District cannot adjust expenditures upward, except by going through this lengthy process. In some years this adjustment can be combined with the budget submission for the upcoming year—although many months of delay in approval can limit the utility of a requested supplement. Otherwise, the District must make-do with a revenue estimate that is completed 18 or more months before the actual revenue is due. And even then, a material fraction of the revenue is actually identified and accounted for after all expenditure plans are long since completed.

As a consequence, the District faces more uncertainty about revenue and expenditures than other cities and states. A lot happens in 18 months to the population, the economy, and the policy environment. Other cities and states have mechanisms for adjusting to these changes. The District would benefit by having an expeditious process for adjusting expenditures in cases where revenues are materially different than initially forecast.

Other taxing jurisdictions exercise their option for interim adjustments. Maryland, for example, makes an initial revenue estimate six months before the start of the fiscal year, a revision three months later, and a mid-course correction five months into the fiscal year so that expenditures can be changed if appropriate.

The District's Economy

September 11 and the recession, and the uncertainty these events created about the future, have overshadowed the many positive developments that occurred during FY 2001. Up until the advent of the national recession and September 11, the widely recognized optimism and enthusiasm for the District was continuing unabated. FY 2001 marked the fifth straight year with economic growth. Residential and commercial real estate markets continued to show strength. Progress also continued in the fiscal arena during FY 2001. Tax revenue increased by 5.9 percent, non-tax revenue increased by 8.1 percent, and

adjusted General Fund revenue increased by 6.4 percent over FY 2000 revenue levels. FY 2001 ended with a fifth consecutive budget surplus.

FY 2001 Economic Indicators

In FY 2001, according to the U.S. Bureau of Economic Analysis (BEA), the District's nominal personal income grew at a 6.6 percent rate, faster than the 6.0 percent growth experienced by the United States as a whole. Economy.com, an economic forecasting service, also estimates that the District's 4.5 percent rate of growth of Gross State Product also exceeded the 4.1 percent growth of U.S. output (measured in nominal terms).

Data reported by the U.S. Department of Labor's Bureau of Labor Statistics (BLS) show that the number of jobs located in the District grew by 1 percent in FY 2001—the third year in a row that nonfarm payroll employment increased. However, the 1 percent rate was a big drop from FY 2000's 3.9 percent rate of growth.

The number of working residents fell by about 1,300 persons in FY 2001—a 0.5 percent decline from the FY 2000 resident employment figure. This too reflects in part the spread of the national economic downturn into the District. The small drop of 0.2 percent in the number of District residents in the labor force, combined with the decline in the number of employed District residents, pushed the FY 2001 unemployment rate up to 6 percent from the 5.7 percent rate in FY 2000.

As of July 1, 2001, District's population was estimated by the U.S. Department of Commerce's Bureau of the Census to be 571,822—an increase of 756 people over their July 1, 2000 estimate. After a number of years with slowing population decline, this estimated upturn hopefully suggests that the District is entering a period of population stability, or growth. The components of the population change show that births (8,193) plus net international in-migration (3,275) exceeded the two primary components of population decline—deaths (6,155) and net domestic out-migration (4,444). If the District continues to progress in improving its economy, providing better services, and lowering the crime rate, the payoff could be

in lower domestic out-migration and an increased population.

Internal Revenue Service (IRS) data for calendar year 1999 show 123 more tax filers moved into the District from another U.S. jurisdiction than moved out. However, in 2000 (the most recent year for which the IRS data are available), 472 more tax filers moved out of the District than moved in. While this is a cause for some concern, the outflow of tax filers was much less than occurred earlier in the decade. Over the eight-year period 1991-1998, tax filer outflows averaged about 4,760 per year.

The market for commercial office space remains strong. Delta Associates data show that at the end of FY 2001, the vacancy rate for Class A office space was 3.7 percent—the lowest in the region. New office space is being developed. More than 2 million square feet of space for lease were added in FY 2001. Approximately 5.8 million square feet of space is currently under construction or renovation.

Housing markets are strong as well. This demand, coupled with a shortage of single-family homes for sale, resulted in significant price appreciation. In FY 2001, single-family housing sales were up 3 percent and average prices increased 19.9 percent over FY 2000 according to MRIS data.

Economic Assumptions for the FY 2003–2006 Revenue Estimates and Financial Plan

In developing economic assumptions for the FY 2003-2006 revenue estimates and financial plan, the national recession and September 11 introduced added uncertainties to the process. Many of the factors affecting the District's economic performance are beyond its control. The District is vulnerable to national economic changes brought about by the federal government's fiscal policies and the Federal Reserve Board's monetary policies. While the District can engage in activities to promote business and pleasure travel to the District, the perception of the city's security can quickly turn depending on whether there are new terrorist attacks domestically, and on how the federal government implements security measures. These perceptions have the capability of spilling over into behavioral changes that

include businesses moving some activities to the suburbs, or individuals going to suburban rather than District restaurants. Behavioral changes such as these quickly impact District revenues.

The preliminary national economic indicators for the first quarter of FY 2002 suggest that the national economy may be beginning to turn the corner. According to the preliminary estimate

of the U.S. Bureau of Economic Analysis, U.S. real Gross Domestic Product grew by 0.2 percent in the first quarter of FY 2001, and personal income rose 0.4 percent in December 2000. The pace of economic recovery, or even if it will be sustained, remains uncertain.

Table 4-5 provides the economic assumptions underlying the revenue estimates.

Table 4-5

Estimated Key Variables for the D.C. Economy, Fiscal Years 1997-2006

	FISCAL YEAR ESTIMATES									
	1997 act.	1998 act.	1999 act.	2000 act.	2001 est.	2002 est.	2003 est.	2004 est.	2005 est.	2006 est.
Gross State Product (\$ billion)	50.01 3.3%	51.70 3.4%	54.66 5.7%	58.98 7.9%	61.62 4.5%	63.66 3.3%	66.55 4.5%	70.06 5.3%	73.47 4.9%	77.34 5.3%
Real Gross State Product (billions of \$96)	49.05 0.6%	49.53 1.0%	51.13 3.2%	53.12 3.9%	53.52 0.8%	53.72 0.4%	54.65 1.7%	55.87 2.2%	56.93 1.9%	58.22 2.3%
Personal Income (\$ billion)	19.00 3.2%	19.78 4.1%	20.40 3.1%	21.50 5.4%	22.76 5.9%	23.36 2.6%	24.47 4.8%	25.68 4.9%	26.91 4.8%	28.21 4.9%
Real Personal Income (billions of \$96)	18.71 1.2%	19.25 2.9%	19.58 1.7%	20.12 2.8%	20.84 3.6%	20.93 0.4%	21.42 2.3%	21.99 2.7%	22.54 2.5%	23.10 2.5%
Per Capita Income	33,581 4.3%	35,104 4.5%	36,017 2.6%	37,635 4.5%	39,780 5.7%	40,685 2.3%	42,429 4.3%	44,330 4.5%	46,193 4.2%	48,164 4.3%
Real Per Capita Income (\$96)	33,068 2.1%	34,163 3.3%	34,567 1.2%	35,228 1.9%	36,426 3.4%	36,452 0.1%	37,136 1.9%	37,962 2.2%	38,701 1.9%	39,438 1.9%
Earnings of D.C. Residents (\$ billion)	12.76 2.7%	12.98 1.7%	13.50 4.1%	14.35 6.2%	15.21 6.0%	15.60 2.6%	16.47 5.5%	17.30 5.1%	18.02 4.1%	18.77 4.2%
Population ('000)	565.9 -0.9%	563.5 -0.4%	566.4 0.5%	571.2 0.8%	572.2 0.2%	574.2 0.4%	576.7 0.4%	579.2 0.4%	582.5 0.6%	585.8 0.6%
Households ('000)	241.9 -0.1%	244.0 0.9%	245.2 0.5%	247.9 1.1%	248.8 0.3%	250.7 0.8%	252.6 0.8%	254.1 0.6%	255.5 0.6%	256.9 0.6%
Civilian Labor Force ('000)	259.7 -5.0%	265.2 2.1%	277.7 4.7%	279.7 0.7%	279.1 -0.2%	276.5 -1.0%	281.4 1.8%	283.2 0.7%	285.6 0.8%	287.8 0.8%
At-Place Employment ('000)	619.1 -1.4%	614.7 -0.7%	620.6 1.0%	645.0 3.9%	651.3 1.0%	652.9 0.3%	656.9 0.6%	663.5 1.0%	669.1 0.8%	675.7 1.0%
Resident Employment ('000)	239.5 -4.0%	241.3 0.7%	258.7 7.2%	263.8 2.0%	262.5 -0.5%	258.3 -1.6%	262.7 1.7%	265.8 1.2%	268.2 0.9%	270.4 0.8%
Unemployment Rate	7.8	9.0	6.8	5.7	6.0	6.6	6.6	6.2	6.1	6.1
Housing Starts	0	246	777	1,261	1,261	2,966	2,966	2,464	2,464	2,464
Housing Stock ('000)	273.0 -0.9%	273.2 0.1%	273.6 0.1%	274.4 0.3%	275.0 0.2%	276.6 0.6%	278.1 0.6%	279.2 0.4%	280.3 0.4%	281.3 0.4%
Change in S & P 500 Index of Common Stock	27.9%	27.5%	21.3%	13.1%	-12.2%	-6.1%	5.5%	6.5%	7.8%	6.2%
Washington Area Consumer Price Change	2.5	1.0	1.9	3.1	2.7	1.6	2.1	2.4	2.4	2.4

Note: Estimated by the D.C. Office of Research and Analysis based on forecasts of the D.C. and national economies prepared in December 2001 by DRI-WEFA and Economy.com; on forecasts of the national economy prepared by the Congressional Budget Office (August 2001) and Blue Chip Economic Indicators (January 2002); on BLS labor market information from December 2001; on the 2000 Census and Census Bureau estimates of the 2001 D.C. population (December 2001); on Bureau of Economic Analysis estimate of D.C. Personal Income (October 2001); and on D.C. Office of Planning information on housing construction activity (September 2001).

Short Term (Fiscal Years 2002-2003)

In keeping with national forecasts, the FY 2003 D.C. budget and financial plan also assume that output, income, and employment will increase in FY 2003 following the slowdown in FY 2002. Several reasons make the District well poised to respond to improvement in the national economic climate. The District's service-oriented economy did not go down as far as the U.S. economy as a whole—in December, jobs located in D.C. were up from the preceding year, vacancy rates in commercial office space remained low, and housing markets were strong. Also, increases in federal spending are expected to be of benefit to the District's economy, and the hardest hit sector, the hospitality industry, is showing signs that the worst is over.

Gross State Product. GSP, the value added in production by the labor and property located in a state, is a measure of the gross output of all industries in a state. Growth in the District's real gross state product declines sharply—but remains positive—in FY 2002, with an increase to 1.7 percent growth in FY 2003. The growth rate of nominal GSP also picks up in FY 2003, and continues in subsequent years at rates close to those of the national economy. The FY 2003 recovery is led by increases in the District's service and government sectors. Output in the hospitality industry, particularly depressed in the first quarter of FY 2002, is expected to recover during FY 2003.

Personal Income. Personal income is a measure of before-tax income received by all persons in a state. It is the total of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and transfer payments. The growth in D.C. personal income is adversely affected by the economic slowdown in FY 2002, but shows signs of recovery in the latter half of the year. The 4.8 percent growth forecast for FY 2003 is somewhat less than the growth rates experienced in FY 2000 and FY 2001.

Per Capita Income. Following the pattern of personal income, growth in both nominal and real per capita income slows in FY 2002 and rebounds in FY 2003 and subsequent years.

Population and Households. D.C.'s 2000 Census count of 572,059 showed that the District of Columbia lost less population during

the 1990s than the U.S. Census Bureau had been expecting, and the Census Bureau estimates that population on July 1, 2001 was slightly higher than one year earlier. With the market for new and rehabilitated housing construction expected to remain strong, D.C.'s population and number of households are expected to increase in FY 2002 and each of the years in the financial plan. This is a major reversal of declining trends over the past several decades.

Civilian Labor Force. The civilian labor force refers to the total number of private industry and state and local government workers who are either employed or unemployed. Federal government, military and agricultural workers are not included in this labor force measure. As the slowdown occurred in the D.C. economy, the civilian labor force declined by 600 in FY 2001 and declines another 2,600 (-1.0 percent) in FY 2002. In 2003, however, a growth of 4,900 is anticipated, with steady increases in the following years.

Wage and Salary Employment Located in D.C. Job growth in the District in FY 2002 slows to a net increase of 1,600, then increases to 4,000 (0.6 percent) in FY 2003. Most of the increase is in the District's service sector.

Resident Employment. The FY 2002 downturn of 4,200 (-1.6 percent) employed D.C. residents turns positive in FY 2003, with the growth of 4,400 jobs.

Unemployment Rate. The unemployment rate, which fell to 5.7 percent in FY 2000, rose to 6.0 percent in FY 2001 and is expected to average 6.6 percent in FY 2002 and FY 2003 before returning closer to 6.0 percent.

Housing. Starting in FY 2000, construction of new housing units has increased. At present, there is no indication that the slowdown in the economy is resulting in delays in constructing additional units, and almost 3,000 new units are anticipated in both FY 2002 and FY 2003. Overall, the housing stock (net of units removed from inventory) is expected to rise by more than 1,000 units per year for the next 5 years.

Stock Market. The FY 2003 budget assumes that the S&P 500 Index of Common Stocks will increase 5.5 percent. Modest increases are also forecast throughout the rest of the financial plan period.

Inflation. Inflation, as measured by the Consumer Price Index, declined to 2.7 percent in FY 2001. A further decline—to 1.6 percent—is forecast for FY 2002. Inflation of 2.1 percent is expected in FY 2003, and the inflation rate remains low (2.4 percent) for the remainder of the financial plan.

Long Term (Fiscal Years 2004-2006)

In looking further ahead to FY 2004 through FY 2006, the key national economic issue is how rapidly the national economy will recover from the recession. The District faces a similar question—how rapidly will its economy grow.

Nationally, the Congressional Budget Office (CBO) projects real GDP to grow by 4.0 percent in FY 2004 and by 3.2 percent in both FY 2005 and FY 2006. The Blue Chip consensus forecast anticipates average annual growth in real GDP of 3.3 percent per year between FY 2004 and FY 2006.

The regional economy is expected to show strength over the long term as it benefits from increased federal government expenditures for both national and homeland defense. While the District does not benefit as much as Northern Virginia from this spending, there will be economic spillovers to District businesses. The continuing revitalization of the downtown area will draw metropolitan area residents to downtown restaurants, shops, and theaters. The opening of the new convention center in 2003 should boost the city's tourism industry. The housing market is expected to remain strong as improving conditions in the city continue to attract new residents. However, the commercial real estate market is anticipated to slow as recent commercial development in downtown is completed by 2003. Jobs in D.C. and resident employment are assumed to increase by about 6,300 and 2,600 per year during the FY 2004 to FY 2006 period, respectively. Inflation-adjusted gross state product and personal income grow at average annual rates of 2.1 percent and 2.5 percent, respectively, over the same period.

Revenues

During FY 2001, local source adjusted General Fund revenue increased by \$214 million (6.4

percent) compared to FY 2000. Local-source adjusted General Fund revenue consists of local taxes, non-tax revenue (e.g., licenses and permits, fines and forfeits, and user fees), and lottery revenue. It does not include grant revenue or revenue earmarked for specific uses. Such revenues are accounted for in special funds within the General Fund.

FY 2001 Revenues

Revenue growth in Fiscal Year 2001 was very different than that which occurred in FY 2000. In FY 2000, almost two-thirds of the \$260 million increase in total revenue was accounted for by individual income and sales taxes. In FY 2001 the increase in these two taxes was much more modest, and they accounted for only one-quarter of the growth. The major factors in FY 2001 revenue growth were deed and estate taxes, a one-time payment for corporate franchise taxes, and non-tax revenues.

Individual income taxes—the District's largest source of tax revenue—grew by 1.9 percent over the FY 2000 level. However, this was a significant slowdown from the 13.1 percent rate of growth in individual income taxes between FY 1999 and FY 2000. The reduction in individual income tax rates that occurred during FY 2001 as a result of the Tax Parity Act of 1999 was a contributing factor to the slower growth in individual income tax revenue.

Corporate franchise taxes showed strong growth during FY 2001—increasing by 22.4 percent over FY 2000 levels, largely as the result of a one time payment. Unincorporated business franchise tax revenue, on the other hand, declined by 2.6 percent. Overall, business income taxes increased by 15.6 percent over FY 2000 levels. This rate of growth was down only slightly from the 20 percent rate of growth between FY 1999 and FY 2000.

Property taxes grew by 2.1 percent over FY 2000. Real property taxes increased by 3.6 percent, showing the continuing strengths of the residential and commercial property markets. The increase in real property taxes offset the decline in revenue from the taxation of personal property (8.5 percent drop in revenue) and rental property (14.0 percent drop in revenue). In the case of

Table 4-6

General Fund, Local Revenues by Source, FY 2001 Actual, FYs 2002-2006 Estimates and Projections

(\$ thousands)

Revenue Source	FY 2001 Actual	FY 2002 Rev. (2/02)	FY 2003 Orig. (2/02)	FY 2004 Proj.	FY 2005 Proj.	FY 2006 Proj.
Real Property	633,172	700,000	751,367	783,618	802,184	821,197
Personal Property	64,144	63,262	61,324	59,684	56,736	54,060
Public Space	10,107	11,361	11,896	12,420	12,942	13,467
Total Property	707,423	774,623	824,587	855,722	871,862	888,724
General Sales (gross)	673,068	696,180	717,465	753,239	781,861	812,947
Convention Center Transfer	55,851	60,345	64,760	68,386	72,216	76,260
General Sales (net)	617,217	635,835	652,705	684,853	709,645	736,687
Alcohol	4,743	4,582	4,307	4,307	4,307	4,307
Cigarette	16,329	15,483	15,035	14,723	14,494	14,242
Hotel Occupancy	25	0	0	0	0	0
Motor Vehicle	38,825	31,254	31,833	32,422	33,019	33,625
Total Sales	677,139	687,154	703,880	736,305	761,465	788,861
Individual Income	1,098,188	1,119,624	1,147,032	1,125,042	1,165,213	1,207,717
Corporate Franchise	233,237	165,277	157,623	152,998	159,125	165,583
U.B. Franchise	68,812	61,278	60,846	62,181	65,565	70,442
Total Income	1,400,237	1,346,179	1,365,501	1,340,221	1,389,903	1,443,742
Public Utility	149,125	152,480	155,775	156,577	160,492	163,949
Toll Telecommunication	51,259	50,681	54,562	58,739	63,236	68,077
Insurance Premiums	33,356	33,600	34,000	34,500	34,500	34,500
Total Gross Receipts	233,740	236,761	244,337	249,816	258,228	266,526
Estate	51,072	46,817	25,483	13,333	0	0
Deed Recordation	75,936	61,142	73,659	73,104	77,880	85,126
Deed Transfer	62,086	46,782	60,755	61,073	66,254	71,662
Economic Interests	1,640	4,500	1,000	500	500	500
Total Other Taxes	190,734	159,241	160,897	148,010	144,634	157,288
TOTAL TAXES	3,209,273	3,203,958	3,299,202	3,330,074	3,426,092	3,545,141
Licenses & Permits	41,394	47,907	49,591	49,757	50,594	50,750
Fines & Forfeits	57,052	63,935	79,205	79,205	79,205	79,205
Charges/Services	63,938	52,149	37,047	34,566	37,201	35,275
Miscellaneous Revenue	93,221	59,350	57,770	67,144	72,872	74,394
TOTAL NON-TAX	255,605	223,341	223,613	230,672	239,872	239,624
Lottery	83,925	70,000	72,900	73,800	74,600	74,600
TOTAL OTHER	83,925	70,000	72,900	73,800	74,600	74,600
GENERAL FUND	3,548,803	3,497,299	3,595,715	3,634,546	3,740,564	3,859,364

Table 4-6 (continued)

General Fund, Local Revenues by Source, FY 2001 Actual, FYs 2002-2006 Estimates and Projections

(\$ thousands)

Revenue Source	FY 2001 Actual	FY 2002 Rev. (2/02)	FY 2003 Orig. (2/02)	FY 2004 Proj.	FY 2005 Proj.	FY 2006 Proj.
Mayoral Proposals						
Suspend Individual Income Tax Parity	0	0	77,200	141,716	143,716	146,178
25% Residential Property Tax Cap	0	0	-15,500	-18,500	-4,000	-3,500
Modification of Housing Act	0	0	19,400	11,637	12,294	13,251
Estate Tax Initiative	0	0	25,000	40,000	56,000	58,000
Increase Fines for Parking Violations	0	0	7,800	7,800	7,800	7,800
Total Mayoral Proposals	0	0	113,900	182,653	215,810	221,729
General Fund with Mayor's Proposals	3,548,803	3,497,299	3,709,615	3,817,199	3,956,374	4,081,093
Federal Contribution	43,295	38,193	33,000	0	0	0
General Fund with Mayor's Proposals & Federal Contribution	3,592,098	3,535,492	3,742,615	3,817,199	3,956,374	4,081,093

the decline in personal property tax revenue, the phase-in of rate reductions under the Tax Parity Act of 1999 was a contributing factor.

Sales taxes also increased during FY 2001. Overall, sales taxes grew by 5.1 percent. General sales taxes (net of the Convention Center transfer) grew by 5.4 percent during the year. Selective sales and use taxes on alcohol and cigarettes fell by 0.8 percent and 4.9 percent, respectively, while motor vehicle excise taxes increased by 5.8 percent during FY 2001.

Gross receipts taxes grew by 10.2 percent over the prior fiscal year. The components of this revenue source all showed strong year-to-year growth as gross receipt taxes on public utilities, toll telecommunications, and insurance premiums increased by 12.3 percent, 6.2 percent, and 8.0 percent, respectively.

The District also received revenue from the taxation of estates, deed recordation, and deed transfers. Revenue from these sources all increased by double-digits in FY 2001. Estate tax revenue increased by 41.9 percent. Deed transfers and deed recordation increased by 39.0 percent and 25.7 percent, respectively. The strong real estate market in the District underlies these increases.

Non-tax revenue also contributed to the District's strong revenue performance in FY 2001 as revenue from licenses and permits, fines and forfeits, user charges, and other miscella-

neous non-tax revenue grew by 8.1 percent from FY 2000 to FY 2001. Finally, lottery revenue increased by 20.8 percent.

Revenues in FY 2002-FY 2006

Compared to the prior two fiscal years, revenue growth beyond FY 2001 is very constrained. Current estimates for FY 2002 show an overall reduction in tax revenue of 0.2 percent, while non-tax revenues and other revenue (lottery revenue) are projected to decline by 12.6 percent and 16.6 percent, respectively. General Fund revenues are estimated to decline by 1.5 percent during FY 2002. This revenue picture reflects expectations about the timing and strength of the District's economic recovery and also the impact of the special factors noted earlier. The effects of the District returning to an annual property tax assessment process and the suspension of the Tax Parity Act's tax rate reductions have also been taken into account in preparing the FY 2002 revenue estimates.

In FY 2003, General Fund revenue to finance operating fund expenditures for FY 2003 is estimated to be \$3,595.7 million, representing an increase of \$98.4 million over the FY 2002 revised estimate of \$3,497.3 million. This represents a 2.8 percent increase over FY 2002 adjusted General Fund revenue. Revenue growth is expected to remain positive over the FY 2003-

FY 2006 period with General Fund revenue growth averaging approximately 2.4 percent per year over this three-year period.

Tax revenue is estimated to be \$3,299.2 million in FY 2003—a 3.0 percent increase over FY 2002 tax revenue of \$3,204.0 million. Over the FY 2003-FY 2006 period, tax revenue is projected to increase by approximately 2.4 percent per year.

Under the Mayor's proposals, General Fund revenue is projected to increase by 6.1 percent in FY 2003 compared to FY 2002. Over the three-year period FY 2003-FY 2006, General Fund revenue increases at an average annual rate of 3.2 percent. The Mayor's proposals increase tax revenue by 6.3 percent in FY 2003, and by about 3.3 percent per year over the FY 2003-FY 2006 period.

The following sections discuss the revenue

estimates for specific individual tax and non-tax revenue sources.

Specific Revenue Sources

The following sections discuss specific taxes and other revenue sources and provide estimates for these revenues through FY 2006. The following chart shows the distribution of estimated General Fund revenue for FY 2003 by source of revenue.

Property Taxes

Real Property Tax

The District's real property tax is similar to that imposed by jurisdictions throughout the United States. Real property in the District is taxed on 100 percent of assessed value, and taxpayers are billed twice annually. In FY 2001, collections under the real property tax constituted 18 percent of General Fund revenue. In FY 2003, col-

Figure 4-1

Estimated General Fund Revenue in FY 2003

Excluding Federal Contribution

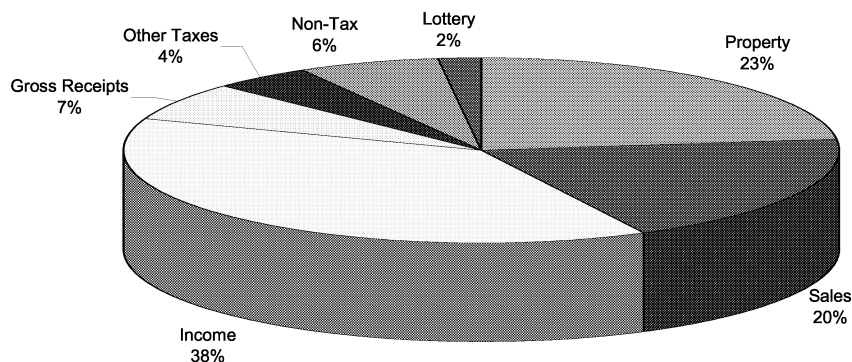


Table 4-7

Property Tax Revenue, Fiscal Years 2001-2006 (Actual, Estimated and Projected)

(\$ thousands)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
Real Property	633,172	700,000	751,367	783,618	802,184	821,197
Real Property with 25% Cap	633,172	700,000	735,867	765,118	798,184	817,697
Personal Property	64,144	63,262	61,324	59,684	56,736	54,060
Public Space	10,107	11,361	11,896	12,420	12,942	13,467
Total	707,423	774,623	824,587	855,722	871,862	888,724
Total with 25% Cap	707,423	774,623	809,087	837,222	867,862	885,224

Table 4-8

Real Property Tax Classes and Rates (Effective for FY 2002)

Real Property Tax Class	Tax Rate
Class 1 (Residential)	\$0.96 per \$100 of assessed value
Class 2 (Commercial/Other)	\$1.85 per \$100 of assessed value

lections under the real property tax are expected to comprise 21 percent of General Fund revenue. Table 4-7 details actual, estimated and projected property tax revenues by source for fiscal years 2001 through 2006. Table 4-7 also shows the effect of the proposal to cap assessment increases. Under this proposal, property tax liability for owner-occupied housing would be capped at 25 percent above the previous year beginning in FY 2003. The expected revenue cost in of this proposal is \$15.5 million in FY 2003, \$18.5 million in FY 2004, \$4.0 million in FY 2005, and \$3.5 million in FY 2006.

While the District's real property tax is similar to those imposed by other jurisdictions, the District's real property tax system differs from that of other jurisdictions in two important ways. First, the District's real property tax system divides properties into separate tax classes. The District currently has two real property tax classifications, each of which is taxed at a different rate depending on the use of the real property. (See Table 4-8).

Second, a relatively large proportion of real property in the District is exempt from paying the District's real property tax. Roughly 42 per-

cent of the total assessed value of D.C. property is exempted from the District's real property tax. Tax exempt properties include those owned by the federal Government, non-profit organizations, foreign governments, cemeteries, educational facilities and others.

The Tax Parity Act and the Real Property Tax

The Tax Parity Act of 1999 has done a great deal to move the District's real property tax system closer to resembling real property tax systems in other jurisdictions. The Act has reduced the number of real property tax classifications from five in FY 1999 and prior years, to two in FY 2002 (see Table 4-8). Currently, real property tax Class 1 is comprised of owner-occupied and renter-occupied real property. Properties with a Class 1 designation are taxed at a rate of \$0.96 per \$100 in assessed value. Class 2 is comprised of commercial, transient residential and other property types. Properties with the Class 2 designation are taxed at a rate of \$1.85 per \$100 in assessed value.

The first phase-in of new rates adopted under the Tax Parity Act became effective for FY 2000 on October 1, 1999. Table 4-9 highlights changes in real property tax rates by tax class for fiscal years 1999 through 2002.

While provisions of the Tax Parity Act of 1999 reduce differences in the District's real property tax and those imposed by surrounding jurisdictions, the rate reductions afforded under the Act substantially reduce the amount of revenue generated by this tax.

Table 4-9

Real Property Tax Classifications and Rates, Fiscal Years 1999-2002

(per \$100 of assessed value)

		FY 1999	FY 2000	FY 2001	FY 2002
New Class One: Effective 10/1/01	Class 1	\$0.96	\$0.96	\$0.96	\$0.96
	Class 2	\$1.54	\$1.34	\$1.15	\$0.96
New Class Two: Effective 10/1/01	Class 3	\$1.85	\$1.85	\$1.85	\$1.85
	Class 4	\$2.15	\$2.05	\$1.95	\$1.85
	Class 5*	\$5.00	-	-	-

*Eliminated in FY 2000 in accordance with provisions of the Tax Parity Act of 1999. Properties formerly in this class were merged into Class 4.

Effective FY 2002 in accordance with provisions of the Tax Parity Act of 1999, Class 1 comprised of owner-occupied and renter-occupied residential. Class 2 comprised of commercial, transient residential, and other property.

Debt Service

Each year the District dedicates a percentage of real property tax collections to pay off the principal and interest on its General Obligation Bonds. For FY 2002, the percentage of real property tax collections dedicated to the repayment of principal and interest on the District's General Obligation Bonds is 60 percent.

Real Property Tax Assessments

Triennial Assessment

In Tax Years 1999 through 2001, the District operated under a triennial assessment system. Under this system, properties in the District were divided into three assessment groups called triennial groups (tri-groups) for assessment purposes. Each tri-group represents approximately a third of the total value of taxable real property in the District. Under the triennial assessment system, decreases in assessed value were immediately realized while increases in assessed value were phased in over a three-year period. With the completion of reassessments for properties in Tri-Group Three in TY 2000 for TY 2001 billing, the District completed one full triennial cycle. Properties in Tri-Group One were reassessed in 1998 for TY 1999. Properties in Tri-Group Two were reassessed in 1999 for TY 2000 billing.

The District's triennial assessment cycle has reduced the annual growth rate of the real property tax because increases in assessed value are not fully realized at the time of reassessment. The immediate reduction in tax liability for properties experiencing a decrease in assessed value has further reduced the growth rate in the real property tax base. When combined, these factors reduce the volatility and the future growth potential of the real property tax.

Annual Assessment

Beginning in FY 2002, the District began its transition back to an annual assessment system. During this transition, one triennial group will shift into annual assessment each year through FY 2004, beginning with Tri-Group One in FY 2002. Tri-Group Two will shift to annual assessment in FY 2003, followed by Tri-Group Three in FY 2004. By FY 2004, all real property in the District will be reassessed on an annual basis. The

return to annual assessment will not only result in assessed values that are more representative of market values, but will also allow for a more natural increase in the growth potential for the real property tax base.

Real Property Tax Base

There is evidence that the District's real property tax base continues to rebound after years of decline. Real estate transactions remained strong in FY 2001 with collections for the Deed Recordation Tax and the Deed Transfer Tax growing by 26 percent and 39 percent, respectively, over the prior year. Demand for property in the District remains high, and the District remains one of the nation's top real estate markets. The following examples provide some insight into the continued strength of the District's real estate market:

- **The New Washington Convention Center.** The new convention center will be among the largest in the nation, boasting nearly 2.3 million square feet of space. The current estimated value of the project once completed is \$800 million. Construction of the facility is expected to be complete by March 2003. A number of hotels and other development projects are planned for the area immediately surrounding the new center.
- **Freedom Forum/Newseum.** Construction is underway on the new Freedom Forum headquarters. Once completed, the new 550,000 square foot facility will house a mixture of museum, office, retail, and restaurant space. The new structure will also include approximately 100 housing units. The new facility will be located on the site of the former D.C. Office of Employment Services building, which the Freedom Forum purchased from the District in 2000. This project is currently valued at \$250 million.
- **Tax Increment Financing.** In FY 2001 the District's Tax Increment Financing program made major strides with three projects currently under development:
 - **International Spy Museum:** The International Spy Museum is described as a "major mixed-use complex celebrating the history of spies and espionage." The

62,000 square foot facility will include a mixture of museum, retail, and restaurant space.

- **Gallery Place:** Construction of Gallery Place, a 650,000 square foot complex in the heart of downtown Washington began in 2001. The completed structure will include residential, retail, and restaurant space, as well as a movie theatre. This project, along with the MCI Center, which opened its doors in 1997, are viewed as the “centerpiece” of future downtown growth.
- **Mandarin Hotel:** Construction of the Mandarin Hotel will mark a major step towards the revitalization of the city’s Southwest waterfront. This 400-room luxury hotel is expected to be completed in 2004.
- **Other Construction Projects.** The District’s revitalization has extended beyond the District’s Central Business District (CBD). The following provides some flavor for trends in the CBD and other sections of the city:
 - **CBD:** Development in this part of the District remains strong. The District’s CBD continues to attract new tenants, and retain existing tenants. Four new buildings were delivered in 2001.
 - **East End:** Currently, there are approximately 1.1 million square feet of space under construction in the East End sub-market. Ground was recently broken on a 350,000 square foot building at 900 7th Street, NW. The projected completion date for this project is June 2003.
 - **Capitol Hill:** There has been a great deal of federal activity in the Capitol Hill sub-market over the last year with the General Services Administration (GSA) signing for approximately 1.2 million square feet in 2001. Three new buildings were delivered in 2001 totaling more than 735,000 square feet. All three were fully leased at the time of delivery.
 - **Southwest:** In 2001, the District and GSA signed for approximately 300,000 square feet in Southwest Washington. Construction has begun on a new struc-

ture at 500-555 12th Street, SW. When completed, the building will house 438,000 square feet of space.

Personal Property Tax

The District’s personal property tax is levied on the depreciated value of all tangible personal property used in a trade or business (computer, vehicles, etc.) except for inventories held for sale. The Tax Parity Act of 1999 excluded the first \$50,000 in taxable value of personal property from the personal property tax. The Act makes the District more competitive with surrounding jurisdictions by accelerating the depreciation of computer equipment.

Strength in the District’s economy has resulted in a higher investment in personal property used for commercial purposes in recent years. As the District’s economy slows, investment levels are expected to decrease, resulting in a decrease in personal property tax revenue. Revenues from the personal property tax are expected to drop slightly from \$64 million in FY 2001 to \$63 million in FY 2002. Personal property tax revenues for FY 2003 are estimated at \$61 million.

Sales and Excise Taxes

General Sales and Use Tax

Revenue from the District’s sales and use tax is collected using a five-tier structure. Sales of tangible personal property and certain specified services are taxed at 5.75 percent. Sales of alcoholic beverages for consumption outside the premises are taxed at 8 percent. Sales of food and drink for immediate consumption, the rental or leasing of motor vehicles and sales of prepaid phone cards are taxed at 10 percent (1 percent supports the Convention Center Authority). Parking and storing of vehicles are taxed at 12 percent. Transient accommodations are taxed at 14.5 percent (4.45 percent supports the Convention Center Authority). The multiplicity of rates, with special exemptions provided at each rate, complicates the administration of the tax for the Office of Tax and Revenue and adds to the compliance costs for businesses such as hotels and food stores, where transactions may involve several tax categories.

Revenue collected under the sales and use tax

Table 4-10

General Sales and Use Tax Revenue, Fiscal Years 2001-2006

(\$ thousands, Net of Convention Center Fund Transfer)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
General Sales and Use	617,217	635,835	652,705	684,853	709,645	736,687

Table 4-11

Estimated Sales Tax Base and Payments by Tax Type, Fiscal Year 2000

(\$ millions)

	Retail	Liquor	Restaurant	Parking	Hotel	Total
Base	\$ 5,490.4	\$ 158.0	\$ 1,630.0	\$ 203.3	\$ 858.6	\$8,340.3
Rate	5.75%	8%	10%	12%	14.5%	
Collections	\$315.7	\$12.6	\$163.0	\$24.4	\$124.5	\$640.2
Convention Center Transfer			16.3		38.2	54.5
General Fund	315.7	12.6	146.7	24.4	86.3	585.7

Note: Preliminary Cash Collections, includes use tax.

Source: Office of Research & Analysis

Table 4-12

Change in Reported Taxable Sales by Rate Category: FY 1996 to FY 2000

(\$ millions)

	Sales tax rate category				
	General 5.75%	Liquor 8%	Restaurant 10%	Parking 12%	Hotel 14.5%
1996	\$3,910.9	\$146.6	\$1,527.9	\$196.4	\$634.5
2000	\$5,490.4	\$158.0	\$1,630.0	\$203.6	\$858.6
% change	40.4%	7.8%	6.7%	3.7%	35.3%

Note: Preliminary Cash Collections, includes use taxes.

Source: Office of Research & Analysis

in FY 2001 was \$617.2 million, net of the Convention Center transfer. This amount represented the third largest source for the District General Fund revenue, making up 17.5 percent of total local-source revenue. The sales and use tax applies to businesses on their purchases of supplies and equipment as well as to a wide range of ordinary consumer purchases. Approximately 42 percent of the District's sales and use tax is levied on purchases by businesses for their own use.

General retail sales at the 5.75 percent rate, comprise two-thirds of the tax base and account for about half of the revenue. Two other categories, hotels (14.5 percent rate) and restaurants (10 percent rate) make up the majority of the remainder of revenue from sales tax. In FY 2000,

the base of the total of combined rates of sales and use tax was \$8.3 billion. Of total collections of \$640.2 million, \$585.7 million was deposited into the General Fund and \$54.5 million into the Convention Center Fund.

Growth in revenue from the general sales tax reflects the increased business activity over the District in the last several years. Average growth rate for FY 1998 through FY 2000 was above 5 percent. In the latter part of FY 2001, this growth slowed considerably, to about 3 percent. This reflected the economic slowdown in the district. In the first quarter of FY 2002, revenue from the hospitality sector was further impacted by the terrorist attacks of September 11, 2001. Economic activity started to pick up by the second quarter of

Table 4-13

Selective Sales and Excise Tax General Fund Revenue, Fiscal Years 2001-2006

(\$ thousands)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
Alcoholic Beverages	4,743	4,582	4,307	4,307	4,307	4,307
Cigarette	16,329	15,483	15,035	14,723	14,494	14,242
Motor Vehicle Excise	38,825	31,254	31,833	32,422	33,019	33,625
Total Selective Sales and Excise ¹	59,897	51,319	51,175	51,452	51,820	52,174

¹ Excludes motor fuel tax because it is not a General Fund revenue source.

the fiscal year. However, we do not expect to make up the revenue not earned in the first quarter in the final three quarters of FY 2002.

During FY 2003 through FY 2006, general sales are expected to grow at approximately 4 percent, slightly below the growth of the gross state product. Revenue from the hospitality sector is forecast to grow above the rate for the gross state product, at approximately 6 percent. The opening of the new convention center, scheduled for FY 2003, is expected to contribute to the strong growth in revenue from sales tax from the hospitality sector.

Excise Taxes

In addition to the multi-rate general sales and use tax, the District imposes excise taxes on alcoholic beverages, cigarettes, motor vehicles, and motor fuel. The motor fuel tax is deposited directly to a special account (the Highway Trust Fund) to match federal funds for the construction, repair and management of eligible District roadways. As a result, motor fuel tax revenue is not considered part of the General Fund for budgetary purposes. Each of the excise taxes is subject to separate forecasting.

Alcoholic Beverage Tax

The alcoholic beverage tax is levied on wholesale sales of beer, wine, and liquor in the District. The tax rates vary by type of product. Alcohol consumption has been declining in the United States since 1980, and this trend is reflected in the District's tax collections for alcoholic beverages over this same time period as well. Alcohol tax collections are expected to decrease in both FY 2002 and FY 2003, but they are projected to

remain constant for FY 2004 to FY 2006. According to statistics from the National Institute on Alcohol Abuse and Alcoholism, beer and liquor comprise the major share of alcohol consumed in the District. Between 1995 and 1998, annual per capita beer consumption in the District declined 6 percent, and annual per capita liquor consumption declined 2 percent. But, annual per capita wine consumption increased 7 percent for the same time period. The growing popularity of wine consumption in the District, combined with the expected growing number of tourists and business travelers in the city, is expected to balance the decrease in demand for beer and liquor beginning in FY 2003.

Cigarette Tax

The cigarette tax is levied on the sale or possession of all cigarettes in the District with the exception of sales to the military and Congress. Cigarette consumption has been declining in recent years due to higher wholesale prices (related to the settlement between tobacco companies and the states), higher state taxes, restrictions on smoking, state-sponsored (and tobacco settlement funded) smoking prevention initiatives, and greater awareness of health risks. One key impact of this trend is a decline in cigarette sales and cigarette tax revenue for the foreseeable future. With the District's tax rate of \$0.65 per pack being among the highest in the nation, cigarette tax revenue is expected to be approximately 13 percent less in FY 2006 than in FY 2001.

Table 4-14

Income Tax Revenue, Fiscal Years 2001-2006

(\$ thousands)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
Individual Income	1,098,188	1,085,624	1,147,032	1,125,042	1,165,213	1,207,717
Individual Income with Mayoral Proposal	1,098,188	1,085,624	1,224,232	1,266,758	1,308,929	1,353,895
Corporation Franchise	233,237	165,277	157,623	152,998	159,125	165,583
Unincorporated Business Franchise	68,812	61,278	60,846	62,181	65,565	70,442
Total Income Taxes	1,400,237	1,312,179	1,365,501	1,340,221	1,389,903	1,443,742
Total Income Taxes with Mayoral Proposal	1,400,237	1,312,179	1,442,701	1,481,937	1,533,619	1,589,920

Motor Vehicle Excise Tax

The motor vehicle excise tax is imposed on the issuance of every original and subsequent certificate of title on motor vehicles and trailers. The tax is 6 percent of fair market value for vehicles 3,499 pounds or less and 7 percent of fair market value for vehicles 3,500 pounds and over. As of October 1, 1998, new residents titling vehicles that were previously registered out of state were no longer required to pay the tax. Despite the legislative changes, motor vehicle excise tax revenue for FY 1999 exceeded FY 1998 levels by 5 percent followed by a 17.1 percent increase in FY 2000 and a 5.8 percent increase in FY 2001.

The motor vehicle excise tax is largely dependent on car purchases by District residents. Car sales have soared in recent years because of the strong national and local economy combined

with low interest rates. Nationally, auto sales have been at record high levels over the past few years. Calendar year 2000 was the best year on record for national car sales with 17.4 million new vehicles being sold. Calendar year 2001 was the second-best year on record for car sales, with 17.1 million new vehicles being sold.

The nation's economy fell into recession during the second quarter of FY 2001 and general sales began to slow with auto sales bottoming out immediately following September 11, 2001. Consequently, some automakers responded to the drop in auto sales by introducing zero percent financing and other stimulating deals in October 2001. These incentives resulted in a sudden surge in new car sales nationally for November and December. This surge is reflected locally in District motor vehicle excise tax monthly collec-

Table 4-15

Individual Income Tax Rates, Tax Years 2002-2003

	2003		2004		2005		2006	
	Tax Parity Act	Mayor's Proposal	Tax Parity Act	Mayor's Proposal	Tax Parity Act	Mayor's Proposal	Tax Parity Act	Mayor's Proposal
Franchise Tax								
Rate	9.0%	9.0%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Individual Income Tax								
Net Taxable Income								
\$0 - \$10,000	4.5%	5.0%	4.0%	5.0%	4.0%	5.0%	4.0%	5.0%
\$10,001 - \$30,000	7.0%	7.5%	6.0%	7.5%	6.0%	7.5%	6.0%	7.5%
\$30,001 - \$40,000	7.0%	9.3%	6.0%	9.3%	6.0%	9.3%	6.0%	9.3%
\$40,001 and above	8.7%	9.3%	8.5%	9.3%	8.5%	9.3%	8.5%	9.3%

Source: Office of Research & Analysis

Table 4-16

Projected Growth in D.C. Resident Earnings, Population, and Employment, Fiscal Years 2001-2006

Fiscal Year	% Growth Earnings of D.C. Residents	% Growth Resident Population	% Growth Resident Employment
2001	6.0%	0.2%	-0.5%
2002	2.6%	0.4%	-1.6%
2003	5.5%	0.4%	1.7%
2004	5.1%	0.4%	1.2%
2005	4.1%	0.6%	0.9%
2006	4.2%	0.6%	0.8%

tions. Automakers' incentives ended in January 2002 and car sales slowed significantly. With car sales reaching record levels over the past few years and ending with a strong surge in car sales at the end of 2001, car sales in the coming years are not expected to be as robust nationally, nor locally. Hence, excise tax collections are expected to decrease 18 percent in FY 2003 compared to FY 2001 levels and to grow at a much more moderate rate thereafter.

Income Taxes

The individual income, the corporate franchise and the unincorporated business franchise taxes are significant sources of District tax revenue. Collectively, these taxes represent 39.7 percent of FY 2001 local source revenue. Revenue for these sources is summarized in Table 4-14, which also shows the effect of the Mayor's proposal to suspend all future reductions in individual income tax rates.

Individual Income Tax

The individual income tax, the District's largest single source of tax revenue, accounted for 31 percent of Total Local Source Revenue in FY 2001. The tax is levied on all individuals who maintain a permanent residence in the District at any time during the tax year or on those who maintain a residence for a total of 183 or more days. Individuals exempt from the District's personal income tax include: elected officers of the federal government; presidential appointees subject to confirmation by the U.S. Senate; justices of the U.S. Supreme Court not domiciled in the

District; employees on legislative staffs who are bona fide residents of the state of their elected officer; and all persons working in the District but living outside the District. Table 4-15 compares the schedule of individual income tax rates under the Tax Parity Act to the rate schedule that would apply under the Mayor's proposal to suspend all future reductions in individual income tax rates. As is shown in the table, the Mayor's proposal does not affect franchise tax rates.

These rates reflect the fiscal year 2002 suspension of rate reductions called for by the Tax Parity Act of 1999, and the accelerated rate

Table 4-17

Actual and Projected Capital Gains (\$ billions)

Calendar Year	Realizations	
	Levels	Percentage Change
1996	\$261 (actual)	45%
1997	\$365 (actual)	40%
1998	\$455 (actual)	25%
1999	\$553 (actual)	21%
2000	\$620 (projected)	12%
2001	\$500 (projected)	-19%
2002	\$476 (projected)	-5%
2003	\$476 (projected)	0%
2004	\$497 (projected)	1%
2005	\$483 (projected)	1%
2006	\$492 (projected)	2%

Source: CBO, Budget and Economic Outlook, Fiscal Years 2003 -2012, January 2002

reductions expected in FY2003. The rate reductions of FY 2002 were automatically suspended because the CBO's national economic growth projections for fiscal year 2002 were less than the 1.7 percent threshold established by the Tax Parity Act. The current CBO forecasts expect real GDP growth to be 4.1 percent for fiscal year 2003. Therefore, the current law estimates assume that the calendar year 2002 and 2003 rate reductions scheduled in the Tax Parity Act will take place in fiscal year 2003.

The Tax Parity Act of 1999 reduces individual income tax rates and changes the threshold for the top bracket over a five-year period. Individual income tax rates are scheduled to be reduced from 6 percent to 4 percent for the first \$10,000 of net taxable income, 8 percent to 6 percent for the next \$10,000 or \$20,000 (depending on the tax year), and 9.5 percent to 8.5 percent for the top rate. The taxable income level at which the top rate applies will also be raised from \$20,000 to \$40,000. All of these changes are phased-in over a five-year period from FY 2000 through FY 2004. All rate reductions will be halted if economic growth, as projected in the CBO's winter report or the District's fund balance fall below critical levels as established in the Tax Parity Act.

In FY 2003, the District expects revenues of approximately \$1.1 billion from individual income tax, after accounting for the reductions in the rates due to Tax Parity, revisions to the District's Earned Income Tax Credit and other legislation affecting this revenue source. This estimate represents a 2.4 percent increase in growth from the fiscal year 2002 base, which was revised downward 2.4 percentage points early in FY 2002 in order to reflect the weakened economy's effect on District revenues. Without accounting for tax parity, the fiscal year 2003 estimate would represent a 12.8 percent increase in growth from the fiscal year 2002 base.

The District expects to experience moderate growth in individual income tax revenue in FY 2003 through FY 2006 as the economy continues to improve, and the population and earnings of D.C. residents grow. Long-term growth potential in income tax revenue requires both growth in the number of wage earning residents

as well as the level of wages earned by D.C. residents. Earnings of D.C. residents are forecast to grow approximately 5.5 percent in FY 2003 and to average 4.5 percent annual growth from FY 2003 through FY 2006. After a period of negative growth in FY 2002, resident employment is forecast to grow 1.7 percent in FY 2003 and to average approximately 1.0 percent growth from FY 2003 through FY 2006.

Under the Mayor's proposal to suspend further rate reductions, FY 2003 individual income tax revenue would be approximately \$1.2 million—a 9.3 percent increase over FY 2002 revenue. Over the FY 2003-FY 2006 period, individual income tax revenue is projected to increase by approximately 3.4 percent per year under the Mayor's proposal. Under the Mayor's proposal, the amount of revenue "saved" would be \$77.2 million in FY 2003, \$141.7 million in FY 2004, \$143.7 million in FY 2005, and \$146.2 million in FY 2006.

The boom in federal income tax revenue over the last few years has been fueled primarily by capital gains realizations (profits), which grew at unprecedented rates. In fact, between 1994 and 1999, actual capital gains realizations nearly quadrupled nationally, according to the CBO. Locally, a substantial part of the District's individual income tax revenue growth over the past few years was due to growth in capital gains realized by an increasing number of high-income residents. Table 4-18 shows data from the IRS Statistics of Income on the share of income tax returns filed from the District with AGI above

Table 4-18
**Capital Gains of High Income
District Residents as a Percentage
of Total Adjusted Gross Income,
Calendar Years 1997-1999**

Calendar Year	% of Returns over \$75,000	Capital Gains as a % of Total AGI
1997	12%	8%
1998	13%	9%
1999	14%	11%

Source: IRS Statistics of Income 1997 - 1999

Table 4-19

Gross Receipts Taxes, Fiscal Years 2001-2006

(\$ thousands)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
Public Utilities, Local Telephone Service, Cable Television, Heating Oil, and Natural Gas	149,125	152,480	155,775	156,577	160,492	163,949
Toll Telecommunications and Commercial Mobile Service	51,259	50,681	54,562	58,739	63,236	68,077
Insurance Premiums	33,356	33,600	34,000	34,500	34,500	34,500
Total Gross Receipts Taxes	233,740	236,761	244,337	249,816	258,228	266,526

\$75,000 and the share of total AGI from capital gains realizations for tax years 1997 through 1999. It shows a growing share of filers with AGI above \$75,000 and capital gains realizations as a growing share of AGI over the period.

With the recent slump in stock market returns we do not expect that income tax revenue will continue to grow at the phenomenal rate of the past few years. Over the long-term, taxpayers will continue to have capital gains, but these gains will not be a dependable source of accelerated long-term growth. In its January 2002 report the CBO projects zero percent growth in capital gains realizations for calendar year 2003. This projection represents a 5 percent increase over the calendar year 2002 growth rate projections. The CBO projects minimal growth in capital gains realizations through calendar year 2006. Given the CBO's slow growth projections for capital gains realizations, the next few years are likely to bring moderate growth in the District's individual income tax revenues.

Corporate Franchise and Unincorporated Franchise Taxes

The District's franchise tax is imposed on all corporations and unincorporated businesses having nexus in the District of Columbia. The tax liability is determined by multiplying the rate of 9.975 percent by the net taxable business income that is apportioned to the District of Columbia. Business income is apportioned to the District of Columbia based on a three-factor formula – sales, payroll, and property – with each factor

weighted equally. When this apportionment formula does not fairly represent the extent of the taxpayer's business activities in the District, that taxpayer may petition (or the Office of Tax and Revenue may require) for consideration of a different formula.

The minimum tax liability is \$100. Income from unincorporated businesses with annual gross receipts of \$12,000 or less is not included in the taxable base. Also excluded from the taxable base is income from nonresident-owned unincorporated businesses that provide professional services (e.g. law firms). For taxable unincorporated business, owners are allowed a 30 percent salary allowance along with a \$5,000 exemption. When 80 percent or more of the entity's income is derived from personal services, the unincorporated business income is taxed under the individual income tax.

The Tax Parity Act enacted in 1999 reduces franchise tax rates from the current rate of 9.975 percent to 9.0 percent in FY 2003 and to 8.5 percent in FY 2004 and thereafter.

Corporate franchise. Before accounting for the impact of the Tax Parity Act, there is moderate growth in corporate franchise tax collections in FY 2003. This growth is consistent with our assumptions of growth in gross state product. After incorporating the impact of the Tax Parity Act, our estimates reflect a 5 percent decline for FY 2003. Our estimates also show a 3 percent decline in FY 2004 after incorporating the impact of the Act. For FY 2005 and FY 2006, after the Tax Parity Act is fully implemented, we expect growth in revenue from corporate fran-

chise taxes of about 4 percent.

The District expects to collect approximately \$157.6 million in FY 2003 and \$153.0 million in FY 2004 from the corporate franchise tax. Tax collections in the District closely mirror collections for the same tax at the federal level, however there is a degree of variability in District collections. For instance, there was an \$18 million refund payment from the corporate franchise tax to one taxpayer in FY 1999 due to a court settlement, thus lowering the collections for that year. In FY 2000, there was a \$10 million settlement in the District's favor, again distorting the baseline collections in the corporate tax. In FY 2001 there was an \$88 million payment from one taxpayer. Based on a court case in 2002, refunds in FY 2002 are expected to be \$40 million above originally projected, thereby lowering collections.

Unincorporated business franchise. The District expects to collect approximately \$60.8 million in FY 2003 and \$62.2 million in FY 2004 from the unincorporated business franchise tax. As with the corporate franchise tax, the decline in FY 2003 collections from the FY 2002 level is partly due to the phase-in of the reductions called for by the Tax Parity Act. Collections from this revenue source are linked to factors as diverse as profits from unincorporated businesses located in the District, personal

income growth, the local commercial real estate sector, and collections in the transfer and recordation taxes .

The national commercial real estate and commercial lending sectors fell victim to the national recession in 2001. Even though the demand for commercial office space and for housing exceeds supply in the District, a soft national economy is a contributing factor to a slowing in the number of new construction starts for new commercial projects in the city. It is difficult for developers to plan and secure financing for local real estate projects in a tenuous national economic environment. Consequently, new construction starts will be adversely affected in FYs 2002 and 2003, as was the case in FY 2001. Since it takes 18-24 months to build large commercial projects, fewer construction projects will restrain profits for local property management, construction, and other real estate related companies in 2002 and 2003. The expected revenue growth from the unincorporated franchise tax in FY 2004 is based on the expectation that the questionable current market environment regains its balance in 2003. Consequently, construction is likely to begin on a host of new commercial projects (including ones that were delayed in 2001 and 2002). The local real estate market will also become even more attractive to

Table 4-20

Other Local Source General Fund Tax Revenue, Fiscal Years 2001-2006

(\$ thousands)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
Deed Recordation*	75,936	61,142	73,659	73,104	77,880	85,126
Deed Recordation with Mayoral Proposal	75,936	61,142	83,947	79,444	84,523	92,320
Deed Transfer*	62,086	46,782	60,755	61,073	66,254	71,662
Deed Transfer with Mayoral Proposal	62,086	45,782	69,941	66,370	71,905	77,718
Economic Interests Transfer	1,640	4,500	1,000	500	500	500
Estate Tax	51,072	46,817	25,483	13,333	0	0
Estate Tax with Mayoral Proposal	51,072	46,817	50,483	53,333	56,000	58,000
Total Other Taxes	190,734	159,241	160,897	148,010	144,634	157,288
Total Other Taxes with Mayoral Proposals	190,734	159,241	205,371	199,647	212,928	228,539

* Beginning in FY 2003, 15 percent of deed recordation and deed transfer taxes are deposited into the Housing Production Trust Fund. The amounts in this table exclude these deposits.

real estate investors as the Gallery Place and Convention Center projects are completed in 2003. More moderate revenue growth will occur in FYs 2005 and 2006—5 percent, and 7 percent, respectively.

Gross Receipts and Other Taxes

The District of Columbia imposes a 10 percent gross receipts tax on public utilities operating in the District. Similar taxes are imposed on heating oil companies; natural and artificial gas marketers; electric utilities; long distance telephone companies; subscription television, video and radio service providers; local telephone companies; and wireless telecommunications providers. The traditional utilities (Washington Gas, Pepco, and Verizon) pay approximately 90 percent of the revenue associated with these taxes.

Public Utility Taxes

The public utility tax is imposed on the gross receipts of gas, electric and local telephone companies. Public utility taxes are expected to grow moderately in FY 2003 as energy prices are expected to remain relatively flat and competition continues to thrive in the industry. According to the Department of Energy's outlook through 2020, natural gas prices are expected to decline by approximately 30 percent in 2002 and then rise slightly in 2003 by 8 percent. Deregulation of the city's regulated energy industries allows greater competition in the marketplace. While Washington Gas remains the leading supplier of natural gas to customers in the Washington area, the percentage of customers choosing alternative suppliers is steadily growing, which is likely to place downward pressure on prices. Currently, both nationally and locally, natural gas prices are down because of less consumer demand and elevated inventories related to warmer than usual weather conditions.

In FY 2000, as part of the deregulation of the electricity market and Pepco's transformation from an electric power producer to an electric power distribution company, the District replaced the gross receipts tax imposed on electric utilities with a unit tax on electricity distribution companies. This "distribution" tax revenue is included along with the city's gross receipts tax

collections. The tax is imposed on electricity distributors who operate in the District. The tax rate is \$0.007 per kilowatt-hour and is equivalent to the current gross receipts tax. While competition serves to foster lower prices to consumers, as of July 2001, 6 months after deregulation occurred, only 16 out of an estimated 200,000 households had made a residential power switch. Of commercial customers, only 1,733 out of 27,126 switched. As of October 2001, these numbers had risen to 1,411 for residential customers in the District, and 4,470 for commercial customers. According to the D.C. Public Service Commission, while it is expected that there will be a steady increase of switchers, the rate cap of 5.2 cents, which was set by the commission, will be difficult for new suppliers to beat. This cap will expire January 1, 2005. Thus, Pepco will likely remain the dominant electricity distributor and deregulation is not expected to have a negative impact on gross receipts revenues for the District in FY 2003.

As always, weather patterns have a significant impact on these receipts—cold periods bring higher natural gas utilization and heat waves result in heightened electricity consumption.

Toll Telecommunication Taxes

The toll telecommunications tax is levied on the long distance and wireless telecommunications companies for the privilege of providing toll telecommunication service in the District. The tax rate is 10 percent of the gross receipts earned by the company. Revenues from this source declined significantly from FY 1998 until FY 2000. Only moderate revenue growth occurred in FY 2001. The initial cause of the decline was a change in the effective tax rate in FY 1998.

However, other factors contributed to the impact and they continue to burden this revenue source. The telecommunication industry experienced a significant economic slowdown in 2001, as telecommunication stock prices plummeted, debts increased, and many companies were forced to conduct massive layoffs, resulting in bankruptcy filings. In the long distance market, competition has forced long distance phone prices down to pennies a minute. Revenue possibilities have eroded as many consumers have

either turned to wireless long distance calling plans that offer countless minutes at a flat monthly fee, signed up for discounted calling plans, or rely heavily on e-mail. Competition continues to thrive in the wireless industry. The share of the toll telecommunication tax paid by wireless companies has actually doubled compared to the share paid by land-based long distance toll calls. Moreover, according to the Cellular Telecommunications & Internet Association (CTIA), a trade group based in Washington D.C., about 2.2 percent of people in the United States have done away with their regular phone service and depend totally on their cell phones or other wireless devices. While this information suggests an increase in the use of wireless services, increased consumer use may actually hinder toll telecommunication tax revenue growth in FY 2003 and beyond. Wireless providers can be located virtually anywhere making it impractical to tie provision of services to a location. Furthermore, the industry will have to rebound from weaker sales from a slumping U.S. economy and saturation of the market, which is also expected to hinder any rapid growth.

Insurance Premiums Tax

The insurance premiums tax is levied only on insurance policies taken out by people who live in the District and on property that is registered in the District, regardless of where insurance policies are written or initiated. Approximately 50 percent of this revenue source stems from life insurance policies, with other premiums (i.e. business, health, property, motor vehicle etc.) making up the remaining 50 percent. Life insurance premium tax collections are positively correlated to income and population. Property insurance premium tax collections are positively related to respective asset value and negatively related to the age of the property. However, insurance, and particularly life insurance, is only one of many forms of “wealth”, and it is in competition with numerous other financial services that might also serve as “insurance”. The insurance premiums tax rate is 1.7 percent of gross premium receipts and annuities are tax-exempt. FY 2001 revenue from this source was \$33.4 million and is projected to grow to only \$34.5 million by FY 2006.

Deed Recordation and Deed Transfer Taxes

The deed recordation tax and the deed transfer tax are each calculated as 1.1 percent of the fair market value of every arms length property sale. Deed recordation tax also must be paid on the increased value when commercial property is refinanced. In response to continued strong regional economic activity between 1999 and 2001, collections rose as both the residential and commercial property markets performed at record levels.

Some commercial real estate analysts have labeled the District as one of the best performing office markets in the nation for 2001 because the District’s stable tenant base (federal government, legal sector and associations) has significantly insulated the city from the national economic downturn. The office vacancy rate in Washington was approximately 5.3 percent and is expected to rise modestly over the next two years to only the mid-5 percent range. (The mid-5 percent range is below the market equilibrium vacancy rate of 6.8 percent.)

Additionally, the low rates of returns from the stock market in 2001 prompted many institutional and other large investors to invest their excess liquidity in commercial real estate.

The Association of Foreign Investors in Real Estate listed the District among the top cities in the world for foreign investment in 2001. The other cities were London, New York, Paris and Tokyo. According to the survey, investors said their primary reasons for investing in U.S. real estate include favorable returns, strong market fundamentals, stability and diversity.

However, the strong demand and limited supply of District commercial office space is causing prices to rise, and this may hamper future growth of the local real estate market. For example, in the midst of a national recession, direct average asking rental rates for leasing commercial office space increased 6.9 percent from 2000, ending the year 2001 at just under \$40.00 per square foot. Class A average direct rental rates were up over 9 percent from last year, at \$44.60 per square foot. The high price of commercial real estate in the District could deter new office space users from moving to (or staying in) the District. But, this consideration has

yet to materialize since office leasing activity in 2001 grew 15.7 percent over year 2000.

In the housing sector, the stellar performance between 1999 and the first half of 2001 is significantly moderated due to the slowing national economy, the lack of affordable housing (homes valued under \$150,000), and the rising prices of local residential property. However, the demand is still strong for housing in the District, and this increased demand is reflected in the fact that at the end of 2001 the median price for single-family homes rose 25 percent from the same period in 2000. While affordable housing is a growing problem in the District, the federal first-time \$5,000 homebuyer credit has helped to mitigate this problem, and the District government encourages housing developers to build a certain percentage of affordable housing units in new housing development projects in the city. In short, the District is a very profitable place to own real estate and a desirable place to work and live. This strong demand and limited supply for real estate in the District will be the key impetus for the growth in the deed taxes from FY 2002 to FY 2006, especially considering that the value of property sold as a percentage of total taxable property has been growing on average by more than 19 percent per year since FY 1996.

The Mayor's proposes delaying the full implementation of Title V of the Housing Act of 2001 from the initial implementation date of October 1, 2002 to October 1, 2003. In addition, in FY 2003, the Mayor proposes to transfer 7.5 percent

of the District's real estate transfer taxes and 7.5 percent of deed recordation taxes to the Housing Production Trust Fund, rather than the 15 percent in current law. The revenue generated by this proposal is estimated to be \$19.4 million in FY 2003, \$11.6 million in FY 2004, \$12.3 million in FY 2005, and \$13.3 million in FY 2006.

Economic Interests Tax

The economic interests tax on a sale of interests in property is triggered when 80 percent of the assets of a corporation being transferred consists of real property located in the District of Columbia; and more than 50 percent of the controlling interest of the corporation is being transferred. If these two elements are met then the tax rate is 2.2 percent of the consideration. This tax is generally paid by real estate investment trusts and similar partnerships.

Economic interests transfers are normally very large and occur infrequently. There can be a long period of time leading up to the final payment of the economic interests tax as corporate lawyers and the Recorder of Deeds determine exemptions and liabilities for the tax. Revenue from the economic interest tax increased from \$540,000 in FY 2000 to \$1.6 million in FY 2001. This activity is expected to continue into FY 2002 and produce \$4.5 million in revenue from this tax source. Economic activity subject to the economic interest tax is expected to scale back to historic levels beginning in FY 2003.

Table 4-21

Value of Property Sold as a Percentage of Total Taxable Property

FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
5.28%	7.25%	7.40%	11.47%	9.25%	12.86%

Table 4-22

Sales Tax Forecast for the Convention Center Fund, Fiscal Years 2002-2006

(\$ thousands)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Restaurant Sales Tax	19,185	21,090	22,271	23,518	24,835
Hotel Sales Tax	41,160	43,670	46,115	48,697	51,425
Total	60,345	64,760	68,386	72,216	76,260

The Estate Tax

The estate tax is imposed on the estate of every decedent dying while a resident of the District, and on the estate of every nonresident decedent owning property having a taxable situs in the District at the time of his or her death. A federal estate tax return must be filed when a person dies and leaves behind an estate valued at more than \$1 million. Residents of the District of Columbia must also file a D.C. estate tax return when they file a federal estate tax return. Currently, the District of Columbia takes advantage of an exclusion for state death taxes written into federal law. In effect, the District “picks up” the total amount allowable under federal law as a credit against a decedent’s federal estate tax liability. Prior to January 2002, the maximum credit was 16 percent of an amount based on the size of a decedent’s estate.

On May 26, 2001, the Congress approved The Economic Growth and Tax Relief Act of 2001. This legislation eliminates the federal estate tax and will have a large negative impact on District of Columbia estate tax revenues. Effective January 1, 2002, the legislation:

- lowers tax rates for the highest estates;
- raises the exemption from \$650,000 to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, and \$3.5 million in 2009; and
- lowers the state credit from 16 percent to 12 percent in 2002, 8 percent in 2003, and 4 percent in 2004. In 2005, the credit will be eliminated.

In FY 2000, the District of Columbia received \$36 million in estate tax revenues. In FY 2001 estate tax collections increased 42 percent to \$51 million, with \$18 million resulting from one unusually large estate taxpayer. The significant increase in revenue collection under the estate tax is attributed to the effect of the stellar performance of the stock market on the portfolios of District residents beginning in the late 1990s. The combination of lower estate tax rates, higher exemption amounts, and lower state credit percentage amounts will result in declining estate tax revenues from FY 2002 to FY 2004. Since the District relies completely on the federal estate tax return’s state credit, the District’s

estate tax collections will disappear once the state credit is eliminated in 2005.

The Mayor proposes to make clarifying changes to Chapter 37, Title 47 § 301 to preserve the District’s revenue from estate taxes at current levels while the federal government phases out the federal estate tax. Under the Mayor’s proposal, the amount of revenue preserved is estimated to be \$25 million in FY 2003, \$40 million in FY 2004, \$56 million in FY 2005, and \$58 million in FY 2006.

Non-Tax Revenues and Lottery

Local non-tax revenue includes licenses and permits, parking and traffic fines, charges for services, interest income, unclaimed property, and other revenue sources. Collectively, this revenue accounts for approximately 6 percent of the District’s local-source General Fund revenue in FY 2002. Further detail is shown in Table 4-30 (Non-Tax Revenue, by Source, FY 2001-2003).

There was an increase in revenue from FY 2000 to FY 2001. Factors that contributed to the increase in non-tax revenue from FY 2000 to FY 2001 included the following:

- Recent legislation regarding the District of Columbia Securities Act of 2000 became effective June 2001. The legislation resulted in the collection of securities registration fees. This fee generated \$7.3 million in General Fund revenue for FY 2001.
- Right-of-way fees contributed \$30 million to the General Fund in FY 2001.
- General Fund Interest Income was \$20.5 million higher in FY 2001 than in FY 2000.
- There was an increase in Lottery revenue for FY 2001 due to the higher than average participation from the Powerball game resulting in an increase of \$14.4 million over FY 2000 levels.
- There was a 10 percent increase in revenue from Traffic Fines resulting in an increase of \$4.3 million.

Factors that somewhat offset the increase in revenue between FY 2000 and FY 2001 include the following:

- The Unclaimed Property Unit of the Office of Tax and Revenue continues to aggressively return unclaimed assets to their rightful own-

ers. During FY 2001, there was an increase in the number of these claims that were paid. The increase in the number of claims paid out resulted in a \$9 million (32 percent) decrease in Unclaimed Property.

- The Lorton Prison Facility closed ahead of schedule during FY 2001 resulting in a decrease of \$6.2 million in revenue from Reimbursements. The federal government paid these reimbursements to the Department of Corrections for costs associated with housing felons in that facility.
- The Alcoholic Beverage Regulation Administration was established as a new agency in FY 2001. Effective May 2001, revenue collected from Alcoholic Beverage Licenses was diverted from the General Fund and placed in an enterprise fund to be used by the ABRA. A portion of the revenue from the licenses was diverted in FY 2001 resulting in a decrease of \$1.5 million in General Fund revenue for FY 2001.
- An additional number of revenue sources were changed from General Fund to Other revenue in FY 2001. These sources include Occupational and Professional Licenses, Rental Accommodations, and KEG Registration Fees. This change reduces General Fund revenue by a total of \$2.4 million.

Factors that will increase non-tax revenue in FY 2002 include the following:

- The new securities registration fee is expected to generate \$8.4 million in General Fund revenue for FY 2002.
- In an effort to increase traffic safety, the Department of Public Works has increased its staff of parking control officers. The additional manpower is expected to generate an additional \$8.5 million in Traffic Fines each year from parking tickets issued.
- The Department of Public Works has also increased the number of parking meters in the District. These additional meters are expected to generate an additional \$2.8 million in General Fund revenue each year.
- The sale of surplus property to the U.S. Government for the construction of the Bureau of Alcohol, Tobacco and Firearms

Headquarters Building will provide \$11.5 million to the General Fund during FY 2002.

- The photo radar camera program that was implemented in August 2001 is expected to generate a total of \$12 million annually.

Factors that will increase non-tax revenue in FY 2003 include:

- Due to the expected end of the recession, interest rates are likely to increase by the end of FY 2002. This will result in an \$8.2 million (46 percent) estimated increase in Interest Income allocated to the General Fund for FY 2003 over FY 2002 levels.
- Under the Mayor's proposal, the District's fines for various types of parking violations—expired meter, residential parking, no parking anytime, parking in alley, and no parking/street cleaning—are increased. This will generate an additional \$7.8 million per year in FY 2003.

Factors that will offset the increase in FY 2002 and FY 2003 collections from non-tax revenue include the following:

- All revenue from Alcoholic Beverage Licenses will be diverted to Other revenue in FY 2002 resulting in a decrease of \$1.4 million in General Fund revenue.
- A portion of the revenue from Right of Way fees will be diverted to Other revenue during FY 2002. In FY 2002, \$12 million will be diverted to Other revenue from the General Fund. Beginning FY 2003, all Right of Way fees will be collected in the Local Roads and Maintenance Fund and will no longer contribute to the General Fund. This will result in an \$24.5 million decrease in General Fund revenue for FY 2003 compared to FY 2002.

Special Funds and Earmarked Revenues

District of Columbia revenues include both special funds and earmarking of General Fund revenues.

Special Funds

The District operates several special funds financed by tax revenues, including the Convention Center Fund and the Highway

Trust Fund. These revenues are not available to the General Fund.

Convention Center Fund. Beginning in FY 1999, the formula financing the Convention Center Fund includes only sales tax revenue from hotels, restaurants, rental vehicles, and sales of pre-paid phone cards. The hotel tax rate is 14.5 percent with 4.45 percent dedicated to the Convention Center Fund while 10.05 percent tax remains in the District's General Fund. The 10 percent restaurant sales tax is divided so that 1 percent goes to the Convention Center Fund and 9 percent remains in the General Fund.

Motor Fuel Tax. The motor fuel tax is assessed at \$0.20 per gallon. Motor vehicle fuel tax revenue is deposited directly into a special account, the Highway Trust Fund, and is not General Fund revenue. The Highway Trust Fund uses both local-source and federal matching funds to construct, repair and manage eligible District roads and bridges. Approximately 400 of the 1,020 miles (or 39.2 percent) of street and highways, as well as 229 bridges in the District, are eligible for federal aid.

This tax is levied on fuel wholesalers and is primarily a function of fuel consumption. In the past, revenues averaged approximately \$30 million a year. However, FY 2001 fuel tax revenues were 10 percent below FY 2000 revenues. Office of Tax and Revenue officials believe that new Virginia legislation that taxes fuel designated for District users as it leaves Virginia-based "terminal racks," instead of along traditional fuel distribution routes, is having a negative impact on District fuel tax collections. "Terminal racks" are points at which fuel physically leaves a fuel distribution terminal and is delivered into a tank truck. Until the impact of Virginia's new legislation on District fuel tax collection can be fully assessed, it is projected that annual fuel tax collections will be approximately \$29 million in FY 2002 and FY 2003.

Earmarking of Revenues for Special Purposes

The District earmarks, or sets aside, revenues from several sources to provide funding for certain specific purposes. In general, the tax that is earmarked relates to the purpose being funded.

For example, the motor vehicle fuel tax is used to match federal dollars for the Highway Trust Fund. The percentage of total revenue earmarked in FY 2000 is shown in Table 4-24.

This total of 27.8 percent of total local-source revenue earmarked is slightly above the level of other states; nationwide, states earmark on average 24 percent of their revenue for various purposes.

Notes on the Data and the Revenue Estimates

In the tables and estimates contained in this chapter, actual revenues are reported for FY 2001, estimated revenue for FY 2002-2003, and projected revenues for FY 2004-2006. Actual revenues correspond to amounts that are reported in the Comprehensive Annual Financial Report (CAFR) for FY 2001. The Office of Research and Analysis (ORA) prepares the estimates and projections based on current law, policy, and administrative quality. No changes in tax structure, tax rates, or addition or elimination of revenue sources are included as part of the estimate unless already legislated and able to be implemented.

Procedures for Estimating Revenue

The process of estimating revenue begins a year in advance. The estimates for FY 2003, for instance, were begun in September 2001.

In September we issue a revenue call to all agencies requesting reports and projections on the amount of user fees, fines, and other types of non-tax income agencies expect to generate.

Economic forecasting assumptions for the District are received from two nationally-known economic analysis and forecasting firms, DRI-WEFA and Regional Financial Associates (RFA), in late summer or late fall. These assumptions help us build the base for growth over the forecast horizon.

During the late summer and throughout the fall, analysts maintain contact with people throughout the District government who are knowledgeable of the collection of all tax and non-tax revenues. This includes the Office of Tax and Revenue and agencies that have user fees or that impose fines. This gives us a good feel for

progress in meeting the current year's goals and for understanding likely trends in the near future.

Analysts follow the year-end closing to be aware of accounting issues that might affect revenues—for instance, changes in accounts receivable or reserves that might impact revenue numbers.

Two advisory groups help us understand the economy:

- The first, a technical advisory group, meets in December and June and is composed of experts in revenue forecasting. Membership includes representatives from the CBO, the Richmond Federal Reserve, the State of Virginia, the State of Maryland, and other jurisdictions and related organizations.
- The second advisory group, composed of knowledgeable local business representatives, advises us about current economic trends and helps us understand where the private sector thinks things are heading. This group meets with us in January and July. Members of this group represent the hotel and tourism industry, real estate and housing, banking and finance, neighborhood groups, downtown development interests, the education sector,

and other interests.

Updated economic assumptions are received from forecasting firms in January. This allows us to fine-tune our projections based on the most recent data available before the final forecasts are released.

At the end of January, CBO releases its Winter Report. This provides recent and valuable guidance on where the national economy is expected to go over the next ten years. As the national economy has a great deal of impact on the D.C. economy, this report is a valuable tool in the final stages of the revenue estimation process.

Subsequent steps in revenue estimating are part technical and part investigative.

The technical part of revenue estimating involves using econometric methods to find statistically valid models that replicate past collections and project confidence intervals for future collections. The models use explanatory variables to account for revenue collections over time relying on relationships between (a) the money collected by the District in a given tax type, and (b) economic variables that track the underlying tax base. For example, in the unincorporated busi-

Table 4-23

Highway Trust Fund, Fiscal Years 2001-2006

(\$ thousands)

	FY 2001 (actual)	FY 2002 (revised est.)	FY 2003 (original est.)	FY 2004 (projected)	FY 2005 (projected)	FY 2006 (projected)
Motor Fuel Tax	28,484	28,856	28,960	29,845	30,563	31,299

Table 4-24

District of Columbia Earmarked Revenues, FY 2000

Purpose	Source(s)	Percent of Local-Source Revenue
General Obligation Bonds	Real property tax (variable percentage)	13.44%
WMATA	All of the motor vehicle excise tax, all parking meters fees, all traffic fines, the motor vehicle registration fee, and parts of the restaurant, hotel, and parking sales taxes	11.34%
Highway Trust Fund	All of the motor vehicle fuel tax	1.01%
New Convention Center	Parts of the restaurant and hotel sales taxes	1.61%
New Arena Construction	Arena fee (all)	0.38%
Total		27.78%

Note: Total consists of all local-source General Fund revenues plus the arena fee, Convention Center transfers, and the motor vehicle fuel tax

ness tax, one model shows a strong lagged relationship between employment in construction and activity in the real estate market (as measured by collections in the transfer tax). This makes sense given that much of the activity that is taxed by the unincorporated business franchise tax is in the real estate and construction segments of the D.C. economy. The economic forecasting variables are used directly in these methodologies.

The rest of the process is where the investigating comes into play. The next step is to incorporate the revenue impact of legislation and additional factors that cannot be captured by econometric models. We know, for instance, that when the new convention center opens in March 2003 there will be an impact in the amount of revenue generated by the sales tax, particularly at the restaurant and hotel sales tax rates. No model can capture this impact, so we must include an estimate of the impact in our revenue projections.

The final step is to run a reality check on the numbers produced. To do this, we compare the projected trends with those of the Congressional Budget Office and neighboring jurisdictions. If our projections are substantially different for individual income tax collections than what CBO is projecting, for example, we need to explain the difference. This helps ensure that our understanding and knowledge of the fundamentals of a tax type are consistent with those of other professionals in the field. The pattern of changes over the projection horizon is also scrutinized in this phase of the process. A dramatic jump or drop from one period to the next needs to be understood.

For the FY 2003 estimates, we contracted with KPMG to review our data and estimating methodologies, determine whether the methodologies are correctly implemented, and recommend changes where they find areas of weakness. Overall, they conclude that ORA uses sound methodologies and implements them competently. They also found that the greatest cause of uncertainty in the estimates is the quality of the data.

Policy Initiatives

The following section presents some of the major policy initiatives impacting the estimates as of the time that this document was prepared:

Tax Parity Act of 1999

The revenue estimates take into account the implementation of the cuts specified in the Tax Parity Act of 1999. This legislation provides District of Columbia tax reductions ranging in cost from \$59.9 million in FY 2000 to \$341.2 million in FY 2004. The Tax Parity Act includes rate reductions in the individual income tax, in commercial and rental real property taxes, and in the franchise taxes. Personal property depreciation rates are accelerated and a threshold is introduced for payment of the personal property tax. Other provisions include elimination of the Arena Fee for those businesses with less than \$2 million in District gross receipts, elimination of net operating loss carry-back and provision of a District-specific net operating loss provision and elimination of the sales tax on Internet access.

The provisions of the Tax Parity Act are phased-in and will not be fully effective until FY 2004. The provisions to be phased-in each year of the plan can be halted if the Chief Financial Officer (CFO) of the District of Columbia determines that a) the accumulated fund balance for the prior year is below five percent of the General Fund operating budget of that year; b) gross domestic product (GDP) growth as estimated by the Congressional Budget Office (CBO) is below 3.5 percent for the current year; or c) inflation-adjusted growth in GDP as estimated by CBO is below 1.7 percent for the current year. As previously discussed, the FY 2002 reductions were automatically suspended because the real GDP growth was forecast to grow at a rate less than the 1.7 percent threshold. In FY 2003 it is estimated that both the FY 2002 and FY 2003 rate reductions will occur, resulting in a \$78.6 million reduction in income tax revenue. The Council and the Mayor may also consider reducing the top rate to 8 percent or less if economic conditions warrant such a change.

Automated Traffic Enforcement System

D.C. Code § 50-2209 authorizes the use of an automated traffic enforcement system to detect moving vehicle infractions. Violations detected by the automated traffic enforcement system constitute moving violations. Recorded images taken by the automated traffic enforcement system are prima facie evidence of an infraction.

This automated traffic enforcement system consists of the red light camera and photo radar camera programs. Automated cameras are used to enforce traffic laws and have been successful in reducing red light running and the number of drivers exceeding the speed threshold. The red light camera traffic program, which began in FY 2000, produced \$6.8 million in revenues for FY 2001. The photo radar (or speeding) camera program became fully operational in FY 2002. Fines associated with the issuance of tickets for this violation were estimated to produce \$12 million per year in net revenue for the General Fund. This new source of revenue affects the General Fund via fines under the non-tax revenue.

The District of Columbia Securities Act of 2000

The District of Columbia Securities Act of 2000, which repealed the existing District of Columbia Securities Act and Investment Advisors Act of 1992, requires the licensing of securities, broker-dealers, investment advisers and investment adviser representatives, and to regulate broker-dealers and others who participate in the sale and purchase of securities. Effective June 2001, recent legislation provided further clarification regarding securities regulation. This legal clarification will result in net revenue to the District approximating \$8.4 million in FY 2002 and \$9.8 million annually from FY 2003 through 2005. The net revenue will positively affect the General Fund via securities registration fees.

Arena Fee Rate Adjustment and Elimination Act of 2001

The Arena Fee Rate Adjustment and Elimination Act of 2001 increases the amount of the arena fee to be remitted on June 15, 2001 and terminates the arena fee beginning in Fiscal Year 2002. The purpose of the increase serves to accelerate revenue col-

lected from the arena fee so that the MCI Arena Bonds can be defeased one year early. Prior year collections have exceeded expectations. As a result, the District is able to pay off the Bonds one year early and save the cost of administration.

Real Property Tax Clarity and Litter Control Administration Temporary Amendment Act of 2001

The Real Property Tax Clarity and Litter Control Administration Temporary Amendment Act of 2001 affects sales taxes, exempt organizations, businesses and deregulated utilities, tax compliance simplification, and the real property tax. The purpose of the Act is to simplify provisions of the D.C. Code and clarify issues related to individual and business taxation in the District of Columbia. The Act makes the provisions of the D.C. Code more consistent and streamlines Code provisions where necessary. The Act also amends the Litter Control Act of 1985 to authorize the collection of assessments for the costs and expenses incurred due to the abatement of nuisances. The legislation will result in net revenues to the District approximating \$3.85 million annually for FY 2002 through FY 2006.

Emergency Economic Assistance Emergency Act of 2001

The Emergency Economic Assistance Emergency Act of 2001 provides, on an emergency basis, financial assistance to certain companies based in the District of Columbia that are engaged in the surface transportation, tourism, restaurant, catering, or lodging industries to preserve their continued viability following the events on September 11, 2001. The legislation will result in a net reduction in District funds of \$14.1 million in FY 2002 and \$1.3 million in FY 2003 and FY 2004.

HomeStart Financial Incentives Act of 2001 (Housing Act of 2001)

The HomeStart Financial Incentives Act of 2001 serves to improve housing opportunities for low and moderate-income District residents. The legislation devotes District resources of at least \$78 million over four years beginning in FY 2002 to improve housing prospects. The legislation will

result in a loss of net General Fund revenue approximating \$500,000 in FY 2002, \$20.6 million in FY 2003, \$25.3 million in FY 2004, \$29.2 million in FY 2005, and \$34.5 million in FY 2006.

Square 456 Payment in Lieu of Taxes Act of 2001

The Square 456 Payment in Lieu of Taxes Act of 2001 authorizes a payment in lieu of taxes for portions of Square 456. The legislation will result in a net loss of \$0.5 million in FY 2003, \$2.9 million in FY 2004, \$3.0 million in FY 2005, and \$3.1 million in FY 2006.

Woolly Mammoth Theater Tax Abatement Act of 2001

The Woolly Mammoth Theater Tax Abatement Act of 2001 exempts from taxation certain property leased to the Woolly Mammoth Theater, a District of Columbia nonprofit corporation. The legislation will result in a net loss of \$10,000 in FY 2002, \$21,000 in FY 2003, \$38,000 in FY 2004, \$39,000 in FY 2005, and \$41,000 in FY 2006.

Negotiated Sale of District-Owned Property at First Street and New York Avenue, N.E.

Negotiated Sale of District-Owned Property at First Street and New York Avenue, N.E., to the General Services Administration/Bureau of Alcohol, Tobacco and Firearms Approval Resolution of 2001

The Negotiated Sale of District-Owned Property at First Street and New York Avenue to the GSA/ATF Approval Resolution of 2001 conveys the Council's approval on a negotiated sale of District government-owned property in Square 710, Lots 800 and 801 to the U.S. Government for the construction of the Bureau of Alcohol, Tobacco and Firearms Headquarters Building. The legislation will result in net revenue of \$11.5 million in FY 2002 through the sale of city-owned property that has been determined to be surplus.

Mayoral Initiatives

Mayor Williams has made a number of proposals that impact General Fund revenue. These include:

- Suspension of further individual income tax rate reductions under the Tax Parity Act,
- Specification of a trigger that could reinstate the individual income tax rate reductions previously scheduled for FY 2002,
- Inclusion of the Council's action to impose a 25 percent cap on real property tax assessment increases for owner-occupied housing,
- Modification of the Housing Act of 2001,
- Preservation of revenues from the estate tax, and
- Increasing fines for parking violations.

These proposals have been described earlier. Combined, they would result in a revenue gain of \$113.9 million in FY 2003, \$182.7 million in FY 2004, \$215.8 million in FY 2005, and \$221.7 million in FY 2006.

Revenue Impact of Incremental Changes in Tax Rates

Table 4-25 looks at the revenue impact of incremental changes in the tax rates effective 2002—for instance, lowering a tax rate by one cent or by one percentage point. These numbers are not presented as definitive fiscal impact statements, but instead represent rules of thumb to evaluate general legislative proposals.

Tables 3-26 through 3-30 provide additional detail on what the District taxes, at what rates, and how much revenue these taxes yield.

Table 4-25

Annual Impact of Changes in Tax Rates

	Tax	Annual Impact
Real Property:		
One cent change in tax rate by class	Class 1 (\$0.96)	\$1.37 M
	Class 2 (\$0.96)	\$0.61 M
	Class 3 (\$1.85)	\$0.16 M
	Class 4 (\$1.85)	\$1.60 M
	TOTAL	\$3.74 M
<hr/>		
Eliminate homestead exemption		\$28.0 M
<hr/>		
Eliminate senior credit		\$16.1 M
<hr/>		
Personal Property Tax:		
One cent change in tax rate (now \$3.40 per \$100 value)		\$0.19 M
Note: Assumes no change in stock of personal property		
<hr/>		
Sales and Use Tax:		
One percent change in each tax rate	General rate (5.75%)	\$51.56 M
	Liquor rate (8%)	\$1.68 M
	Restaurant rate (10%)	\$16.05 M
	Parking rate (12%)	\$1.96 M
	Hotel, motel rate (14.5%)	\$7.72 M
	TOTAL	\$78.98 M
Note: Does not include estimates of elasticity of various tax rates. Figures shown are before Convention Center distribution. Figures include use tax		
<hr/>		
Eliminate sales tax on business purchases		\$103 M
<hr/>		
Alcoholic Beverage Tax:		
One cent change in tax rate	Beer (\$0.09 rate per gallon)*	\$125 K
	Spirits (\$1.50 per gallon)	\$16 K
	Light Wine (\$0.30 per gallon)	\$24 K
	Heavy Wine (\$0.40 per gallon)	\$2 K
	Champagne, Sparkling Wine (\$0.45 per gallon)	\$29 K
	TOTAL	\$196 K
* Equivalent to tax rate of \$2.79 per 31-gallon barrel.		
<hr/>		
Cigarette Tax:		
One cent change in tax rate	Cigarette tax rate \$0.65 per pack	\$0.17 M
Note: Assumes elasticity of 0.5, figure shown assumes rate increase		

Table 4-25 (continued)

Annual Impact of Changes in Tax Rates

Tax	Annual Impact
Motor Vehicle Excise Tax:	
One percent change in each tax rate (current rates now 6%, 7%)	\$2.9 M
Motor Vehicle Fuel Tax:	
One cent change in tax rate (current rate \$0.20 per gallon)	\$1.7 M
Individual Income Tax:	
One percent change in each rate (FY 2002 rates 5%, 7.5% and 9.3%)	
Taxable Income of \$0-\$10,000 at 5%	\$22.3 M
Taxable Income \$10,000-\$30,000 at 7.5%	\$15.2 M
Taxable Income over \$30,000 at 9.3%	\$53.1 M
TOTAL ALL THREE RATES	\$90.6 M
Increase personal exemption from \$1,370 to \$1,500	\$5.6 M
Increase standard deduction from \$1,000/\$2,000 to \$2,000/\$4,000	\$12.7 M
Reduce top rate to 9.0% (now 9.3%)	\$25.6 M
Corporate Franchise Tax:	
One percent change in tax rate (current rate 9.975%)	\$15.7 M
Unincorporated Business Franchise Tax:	
One percent change in tax rate (current rate 9.975%)	\$5.4 M
Public Utility Tax:	
One percent change in tax rate (current rate 10.0%)	\$13.1 M
Toll Telecommunications Tax:	
One percent change in tax rate (current rate 10.0%)	\$5.6 M
Deed Recordation Tax:	
One-tenth percent change in tax rate (current rate 1.1%)	\$7.8 M
Deed Transfer Tax:	
One-tenth percent change in tax rate (current rate 1.1%)	\$5.6 M
Economic Interests Tax:	
One-tenth percent change in tax rate (current rate 2.2%)	\$0.18 M

Table 4-26

Summary of District of Columbia Tax Rates as of:

	10/1/01	10/1/02
Real Property (per \$100 of assessed value)		
Class 1 - Occupied Residential ^a	\$0.96	\$0.96
Class 2 - All Other Real Property	\$1.85	\$1.85
^{a/} Owner-occupied residential real property is subject to a homestead exemption of \$30,000 and a senior citizen exemption		
Personal Property (per \$100 of assessed value)		
	\$3.40	\$3.40
General Sales Tax (per \$1.00 of sales)		
General Rate	5.75%	5.75%
Alcohol Sold for Off-Premises Consumption	8.0%	8.0%
Restaurant Meals, Alcohol Sold for On-Premises Consumption, Rental Vehicles, Prepaid Phone Cards	10.0%	10.0%
Parking	12.0%	12.0%
Hotel/Motel Accommodations	14.5%	14.5%
Alcoholic Beverage Tax		
Beer	\$2.79 per 31 gal. barrel	\$2.79 per 31 gal. barrel
Distilled Spirits	1.50 per gallon	1.50 per gallon
Wine = 14% Alcohol	0.30 per gallon	0.30 per gallon
Wine > 14% Alcohol	0.40 per gallon	0.40 per gallon
Champagne/Sparkling Wines	0.45 per gallon	0.45 per gallon
Cigarette Tax (per pack)	\$0.65	\$0.65
Motor Fuel Tax (per gallon)	\$0.20	\$0.20
Motor Vehicle Excise Tax		
3,499 lbs. or less	6% of value	6% of value
3,500 lbs. or more	7% of value	7% of value
Hotel Occupancy Tax (effective 10/1/98)	Eliminated	Eliminated
Individual Income Tax		
Taxable Income:	Marginal rates, calendar year 2002	
\$ 0 - \$ 10,000	5.0%	
\$ 10,001 - \$ 30,000	7.5%	
\$ 30,001 and over	9.3%	
Taxable Income:	Marginal rates, calendar year 2003	
\$ 0 - \$ 10,000	4.5%	
\$ 10,001 - \$ 40,000	7.0%	
\$ 40,001 and over	8.7%	
Corporation and Unincorporated Business Franchise	9.975%	9.0%
Public Utility Gross Receipts	10.0%	10.0%
Toll Telecommunication Gross Receipts	10.0%	10.0%

Table 4-26 (continued)

Summary of District of Columbia Tax Rates as of:

	10/1/01	10/1/02
Insurance Gross Premiums	1.7%	1.7%
Estate Tax	Federal Credit	Federal Credit
Deed Recordation and Transfer Taxes	1.1%	1.1%
Economic Interests Tax	2.2%	2.2%

Source: District of Columbia Tax Facts and Office of Tax and Revenue

TABLE 4-27

Summary of Major Taxes in the District of Columbia

PART A – GENERAL FUND TAXES

TAX	DESCRIPTION OF WHAT IS TAXED	RATE	FY 2001 REVENUE										
REAL PROPERTY TAX	<p>All real property, unless expressly exempted, is subject to the real property tax and is assessed at 100% of market value. With the property tax year beginning October 1, 2001, the District of Columbia reduced the number of property classes from four to the following two classifications of property: Class I--improved residential real property that is occupied and is used exclusively for nontransient residential dwelling purposes; and Class II--all real property that is not Class I property. Unimproved real property which abuts Class I property is classified as Class I property if the unimproved real property and the Class I property have common ownership.</p> <p><i>D.C. Code Citation: Title 47, Chapter 7 - 14.</i></p>	<p>The District's Real Property Tax Year is October 1 through September 30.</p> <table><tr><th>Property Class</th><th>Tax Per \$100 of Value</th></tr><tr><td>Class 1</td><td>\$0.96 (a)</td></tr><tr><td>Class 2</td><td>\$1.85</td></tr></table> <p>(a) For owner-occupied residential real property, the first \$30,000 of Assessed Value is exempt from the tax.</p>	Property Class	Tax Per \$100 of Value	Class 1	\$0.96 (a)	Class 2	\$1.85	\$ 633,172,000				
Property Class	Tax Per \$100 of Value												
Class 1	\$0.96 (a)												
Class 2	\$1.85												
PERSONAL PROPERTY TAX	<p>All tangible property, except inventories, used or available for use in a trade or business.</p> <p><i>D.C. Code Citation: Title 47, Chapter 15 - 17.</i></p>	<p>\$3.40 per \$100 of assessed value</p> <p>Note: As of July 31, 2000, both an accelerated depreciation schedule for computer equipment; and a \$50,000 taxable value threshold on personal property are adopted.</p>	\$ 64,144,000										
PUBLIC SPACE RENTAL	<p>Commercial use of publicly owned property between the property line and the street.</p> <p><i>D.C. Code Citation: Title 7, Chapter 10.</i></p>	<p>Various rates for the following: Vault, Sidewalk (Enclosed and Unenclosed), Sidewalk Surface, and Fuel Oil Tank</p>	\$ 10,107,000										
SALES AND USE TAX	<p>All tangible personal property and certain selected services, sold or rented to businesses or individuals at retail in the District. Groceries, prescription and non-prescription drugs, and residential utility services are among those items exempt from the sales tax.</p> <p>The use tax is imposed at the same rate as the sales tax rate on purchases made outside the District and then brought into the District to be used, stored or consumed, providing that the purchaser has not paid the sales tax on the purchases to another jurisdiction.</p> <p><i>D.C. Code Citation: Title 47, Chapters 20 and 22.</i></p>	<p>A five-tier rate structure is presently in effect:</p> <table><tr><td>5.75%</td><td>General rate for tangible personal property and selected services,</td></tr><tr><td>8%</td><td>Liquor sold for off the premises consumption</td></tr><tr><td>10%</td><td>Restaurant meals, liquor for consumption on the premises, rental vehicles, prepaid phone cards</td></tr><tr><td>12%</td><td>Parking motor vehicles in commercial lots</td></tr><tr><td>14.5%</td><td>Transient accommodations</td></tr></table> <p>Note: The following portions of the sales tax go to the Convention Center Fund: 1% of sales tax from restaurant meals etc., and 4.45% of sales tax from transient accommodations. Sales tax on internet access is eliminated.</p>	5.75%	General rate for tangible personal property and selected services,	8%	Liquor sold for off the premises consumption	10%	Restaurant meals, liquor for consumption on the premises, rental vehicles, prepaid phone cards	12%	Parking motor vehicles in commercial lots	14.5%	Transient accommodations	\$ 617,217,000 (a)
5.75%	General rate for tangible personal property and selected services,												
8%	Liquor sold for off the premises consumption												
10%	Restaurant meals, liquor for consumption on the premises, rental vehicles, prepaid phone cards												
12%	Parking motor vehicles in commercial lots												
14.5%	Transient accommodations												

ALCOHOLIC BEVERAGE TAX	Alcoholic beverages manufactured by a holder of a manufacturer's license and beverages brought into D.C. by the holder of a wholesaler's or a retailer's license. <i>D.C. Code Citation: Title 25, Chapter 1.</i>	Beer –\$2.79 per 31 gallon barrel Light wine =14% alcohol – 30¢ per gal Heavy wine >14% alcohol – 40¢ per gal Champagne/sparkling wine– 45¢ per gal Spirits -- \$1.50 per gallon	\$ 4,743,000
CIGARETTE TAX	The sale or possession of cigarettes in the District. Cigarettes sold to the military and to federal Government are exempt. <i>D.C. Code Citation: Title 47, Chapter 24.</i>	65¢ per package of twenty cigarettes	\$ 16,329,000
MOTOR VEHICLE EXCISE TAX	Issuance of every original and subsequent certificate of title on motor vehicles and trailers. <i>D.C. Code Citation: Title 40, Chapter 7.</i>	Based on manufacturer's shipping weight 6% of fair market value-3,499 lbs or less 7% of fair market value-3,500 lbs or more	\$ 38,825,000
INDIVIDUAL INCOME TAX	The taxable income of an individual who is domiciled in the District at any time during the tax year, or who maintains an abode in the District for 183 or more days during the year. <i>D.C. Code Citation: Title 47, Chapter 18.</i>	For Calendar Year 2002: Taxable Income Tax Rate First \$10,000 5.0% Over \$10,000, but Not over \$30,000 \$500 + 7.5% of excess over \$10,000 Over \$30,000 \$2,000 + 9.3% of Excess over \$30,000	\$ 1,098,188,000
CORPORATE FRANCHISE TAX	Net income of corporations having nexus in the District. All corporations engaging in a trade, business or profession in the District of Columbia must register. <i>D.C. Code Citation: Title 47, chapter 18.</i>	The franchise tax rate is 9.975 percent of taxable income, a 9.5 percent rate plus a surtax equal to 5 percent of the base rate.	\$ 233,237,000
U. B. FRANCHISE TAX	Net income of unincorporated businesses with gross receipts over \$12,000. A 30% salary allowance for owners and a \$5,000 exemption are deductible from net income to arrive at taxable income. A business is exempt if more than 80% of gross income is derived from personal services rendered by the members of the entity and capital is not a material income-producing factor. A trade, business or professional organization which by law, customs or ethics cannot be incorporated is exempt. <i>D.C. Code Citation: Title 47, chapter 18.</i>	The franchise tax rate is 9.975 percent of taxable income, a 9.5 percent rate plus a surtax equal to 5 percent of the base rate.	\$ 68,812,000
PUBLIC UTILITY TAX	Gross receipts of gas, electric and local telephone companies. <i>D.C. Code Citation: Title 47, Chapter 25.</i>	10% of gross charges	\$ 149,125,000
TOLL TELECOM-MUNICATIONS TAX	Gross receipts of companies providing toll telecommunication service in the District. <i>D.C. Code Citation: Title 47, Chapter 38.</i>	10% of gross charges	\$ 51,259,000
INSURANCE PREMIUMS TAX	Gross insurance premiums received on risks in the District, less premiums received for reinsurance assumed, returned premiums and dividends paid to policy-holders. The tax is in lieu of all other taxes except real estate taxes and fees provided for by the District's insurance law. <i>D.C. Code Citation: Title 35; Title 47, Chapter 26.</i>	1.7% on gross premium receipts	\$ 33,356,000
ESTATE TAX	The estate of every decedent dying while a resident of the District, and on the estate of every nonresident decedent owning property having a taxable situs in the district at the time of his or her death. <i>D.C. Code Citation: Title 47, Chapter 19.</i>	Tax equals the amount of credit for state death taxes allowed on the Federal Estate Tax Return.	\$ 51,072,000

DEED RECORDATION TAX	The recording of all deeds to real estate in the District. The basis of the tax is the value of consideration given for the property. Where there is no consideration or where the consideration is nominal, the tax is imposed on the basis of the fair market value of the property. <i>D.C. Code Citation: Title 45, Chapter 9.</i>	1.1% of consideration or fair market value	\$ 75,936,000
DEED TRANSFER TAX	Each transfer of real property at the time the deed is submitted for recordation. The tax is based upon the consideration paid for the transfer. Where there is no consideration or where the amount is nominal, the basis of the transfer tax is the fair market value of the property conveyed. <i>D.C. Code Citation: Title 45, Chapter 9.</i>	1.1% of consideration or fair market value	\$ 62,086,000
ECONOMIC INTEREST TAX	The economic interest transfer tax is triggered by two (2) elements. These elements are 1) 80% of the assets of a corporation consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. The consideration is not always equal to the assessed value of the property. The consideration is what is paid for the interest being transferred. If there is no tangible consideration, then the tax basis will be the assessed value of the property owned by the corporation.	2.2% of consideration or fair market value	\$ 1,640,000
TOTAL GENERAL FUND TAXES:			\$3,209,273,000 (a) (b)

PART B – OTHER SELECTED TAXES

TAX	DESCRIPTION OF WHAT IS TAXED	RATE		FY 2001 REVENUE
MOTOR VEHICLE FUEL TAX	Every importer of motor vehicle fuels, including gasoline, diesel fuel, benzol, benzene, naphtha, kerosene, heating oils, all liquefied petroleum gases and all combustible gases and liquids suitable for the generation of power for the propulsion of motor vehicles. <i>D.C. Code Citation: Title 47, Chapter 23.</i>	20¢ per gallon		\$ 28,484,000
THE ARENA FEE	<p>The Arena Fee is required to be paid by any person or entity who at any given point during their calendar year or fiscal year ending on June 15, is subject to any of the following:</p> <ol style="list-style-type: none"> 1) D.C. corporation franchise tax; 2) D.C. unincorporated business franchise tax; or 3) The D.C. Unemployment Compensation Act, except employers who employ persons to provide personal or domestic services in a private home unless the employment is related to the employer's trade, occupation profession, enterprise, or vocation. <p>An entity granted exemption from D.C. corporation franchise tax or unincorporated business franchise tax, pursuant to Title II of the D.C. Income and Franchise Tax Act of 1947, as amended, is not subject to the fee, unless it has unrelated business income. An exempt entity with unrelated business income shall pay an Arena Fee based upon annual D.C. gross receipts associated with the unrelated business income for the preceding fiscal year. <i>D.C. Code Citation: Omnibus Budget Support Act of 1994, Title III, Section 303, April 22, 1994.</i></p>	<p>District Gross Receipts</p> <p>Less than \$200,000,000 \$2,000,001 to \$3,000,000 \$3,000,001 to \$10,000,000 \$10,000,001 to \$15,000,000 Over \$15,000,000</p>	<p>Fee For Preceding Fiscal Year</p> <p>\$ 0 \$ 1,000 \$ 3,300 \$ 6,500 \$ 11,000</p>	\$ 15,523,000
		<i>Note: New rate schedule, effective for payments due June 15, 2000.</i>		
		<i>Note: The Arena Fee was terminated beginning in fiscal year 2002.</i>		

Source of General Fund Revenue Amounts: Government of the District of Columbia Comprehensive Annual Financial Report, Year Ended September 30, 2001, p. 81.

Notes: (a) Amount excludes transfers to the Convention Center Fund. (b) Includes \$25,000 revenue from the hotel occupancy tax that was discontinued, effective October 1, 1998. Prepared by the Office of Research and Analysis.

Table 4-28

Local Source General Fund Revenues, Yearly Differences and Yearly Percentage Differences, Fiscal Years 2001-2003

(\$ thousands)

Revenue Source	FY 2001 Actual	FY 2002 Rev. (2/02)	FY 2003 Orig. (2/02)	Difference 01/02	Difference 02/03	Pct. Diff. 01/02	Pct. Diff. 02/03
Real Property	633,172	700,000	751,367	66,828	51,367	10.6%	7.3%
Personal Property	64,144	63,262	61,324	-882	-1,938	-1.4%	-3.1%
Public Space	10,107	11,361	11,896	1,254	535	12.4%	4.7%
Total Property	707,423	774,623	824,587	67,200	49,964	9.5%	6.5%
General Sales (gross)	673,068	696,180	717,465	23,112	21,285	3.4%	3.1%
Convention Center Transfer	55,851	60,345	64,760	4,494	4,415	8.0%	7.3%
General Sales (net)	617,217	635,835	652,705	18,618	16,870	3.0%	2.7%
Alcohol	4,743	4,582	4,307	-161	-275	-3.4%	-6.0%
Cigarette	16,329	15,483	15,035	-846	-448	-5.2%	-2.9%
Hotel Occupancy	25	0	0	-25	0	-100.0%	n/a
Motor Vehicle	38,825	31,254	31,833	-7,571	579	-19.5%	1.9%
Total Sales	677,139	687,154	703,880	10,015	16,726	1.5%	2.4%
Individual Income	1,098,188	1,119,624	1,147,032	21,436	27,408	2.0%	2.4%
Corporate Franchise	233,237	165,277	157,623	-67,960	-7,654	-29.1%	-4.6%
U.B. Franchise	68,812	61,278	60,846	-7,534	-432	-10.9%	-0.7%
Total Income	1,400,237	1,346,179	1,365,501	-54,058	19,322	-3.9%	1.4%
Public Utility	149,125	152,480	155,775	3,355	3,295	2.2%	2.2%
Toll Telecommunications	51,259	50,681	54,562	-578	3,881	-1.1%	7.7%
Insurance Premiums	33,356	33,600	34,000	244	400	0.7%	1.2%
Total Gross Receipts	233,740	236,761	244,337	3,021	7,576	1.3%	3.2%
Estate	51,072	46,817	25,483	-4,255	-21,334	-8.3%	-45.6%
Deed Recordation	75,936	61,142	73,659	-14,794	12,517	-19.5%	20.5%
Deed Transfer	62,086	46,782	60,755	-15,304	13,973	-24.6%	29.9%
Economic Interests	1,640	4,500	1,000	2,860	-3,500	174.4%	-77.8%
Total Other Taxes	190,734	159,241	160,897	-31,493	1,656	-16.5%	1.0%
TOTAL TAXES	3,209,273	3,203,958	3,299,202	-5,315	95,244	-0.2%	3.0%
Licenses & Permits	41,394	47,907	49,591	6,513	1,684	15.7%	3.5%
Fines & Forfeits	57,052	63,935	79,205	6,883	15,270	12.1%	23.9%
Charges/Services	63,938	52,149	37,047	-11,789	-15,102	-18.4%	-29.0%
Miscellaneous Revenue	93,221	59,350	57,770	-33,871	-1,580	-36.3%	-2.7%
TOTAL NON-TAX	255,605	223,341	223,613	-32,264	272	-12.6%	0.1%
Lottery	83,925	70,000	72,900	-13,925	2,900	-16.6%	4.1%
TOTAL OTHER	83,925	70,000	72,900	-13,925	2,900	-16.6%	4.1%
GENERAL FUND	3,548,803	3,497,299	3,595,715	-51,504	98,416	-1.5%	2.8%

Table 4-28 (Continued)

Local Source General Fund Revenues, Yearly Differences and Yearly Percentage Differences, Fiscal Years 2001-2003

(\$ thousands)

Revenue Source	FY 2001 Actual	FY 2002 Rev. (2/02)	FY 2003 Orig. (2/02)	Difference 01/02	Difference 02/03	Pct. Diff. 01/02	Pct. Diff. 02/03
Mayoral Proposals							
Suspend Individual Income Tax Parity	0	0	77,200	0	77,200	n/a	n/a
25% Residential Property Tax Cap	0	0	-15,500	0	-15,500	n/a	n/a
Modification of Housing Act	0	0	19,400	0	19,400	n/a	n/a
Estate Tax Initiative	0	0	25,000	0	25,000	n/a	n/a
Increase Fines for Parking Violations	0	0	7,800	0	7,800	n/a	n/a
Total Mayoral Proposals	0	0	113,900	0	113,900	n/a	n/a
General Fund with Mayor's Proposals	3,548,803	3,497,299	3,709,615	-51,504	212,316	-1.5%	6.1%
Federal Contribution	43,295	38,193	33,000	-5,102	-5,193	-11.8%	-13.6%
General Fund with Mayor's Proposals & Federal Contribution	3,592,098	3,535,492	3,742,615	-56,606	207,123	-1.6%	5.9%

Table 4-29

Local Fund Revenues, FY1991-FY2001

(\$ thousands)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Property	801,876	820,892	928,322	730,641	654,284	624,382	617,694	616,935	597,566	610,896	633,172
Personal Prop.	69,899	65,609	67,085	62,437	61,305	65,201	60,392	68,475	73,928	70,133	64,144
Public Space	10,103	16,818	16,256	17,931	14,754	12,052	9,513	10,030	8,056	11,752	10,107
Total Property	881,878	903,319	1,011,663	811,009	730,343	701,635	687,599	695,440	679,550	692,781	707,423
General Sales and Use	451,582	442,496	410,068	458,555	485,651	467,527	482,354	525,087	541,573	585,688	617,217
Alcohol	6,541	5,835	5,289	4,878	4,930	5,100	5,460	4,702	4,821	4,779	4,743
Cigarette	10,426	17,065	20,845	21,721	20,117	18,676	18,946	17,592	17,107	17,177	16,329
Motor Vehicle Fuel	30,114	28,586	34,780	36,107	34,617	n/a	n/a	n/a	n/a	n/a	n/a
Motor Vehicle Excise	23,555	22,108	24,268	27,456	30,440	31,668	30,271	29,838	31,329	36,693	38,825
Hotel Occupancy	8,786	8,660	9,485	8,757	8,352	7,420	3,806	5,369	(26)	0	25
Total Selective Sales	79,422	82,254	94,667	98,919	98,456	39,088	58,483	57,501	53,231	58,649	59,922
Ind. Income	615,746	620,208	589,521	650,660	643,676	689,408	753,475	861,505	952,156	1,077,346	1,098,188
Corp. Franchise	102,767	62,751	105,038	113,981	121,407	123,114	144,563	170,029	163,699	190,594	233,237
U.B. Franchise	30,512	25,126	35,960	36,227	39,272	31,031	38,942	45,767	53,896	70,624	68,812
Total Income	749,025	708,085	730,519	800,868	804,355	843,553	936,980	1,077,301	1,169,751	1,338,564	1,400,237
Insurance	33,338	31,785	32,187	31,208	34,703	33,121	42,625	37,096	26,944	30,882	33,356
Public Utility	86,239	115,297	127,245	134,228	131,012	144,842	141,901	141,069	128,472	132,849	149,125
Toll Tele. Tax	22,985	33,110	37,807	39,958	44,554	45,464	52,994	56,732	51,874	48,280	51,259
Health Care Prov. Fee			32,354	27,708	175	11,530	(8,278)	1,740	0	0	0
Public Safety Fee				10,097	468	0	0	0	0	0	0
Total Gross Receipts	142,562	180,192	229,593	243,199	210,912	234,957	229,242	236,637	207,290	212,011	233,740
Estate	26,970	29,922	38,680	11,714	16,807	32,175	27,314	32,256	26,247	35,992	51,072
Deed Recordation	19,953	17,831	20,245	23,547	22,691	33,099	30,821	53,863	70,398	60,418	75,936
Deed Transfer	18,815	19,944	21,506	21,980	21,826	26,701	27,162	42,597	47,001	44,660	62,086
Economic Interests	1,525	257	911	262	0	10	10,081	11,166	3,687	540	1,640
Total Other Taxes	67,263	67,954	81,342	57,503	61,324	91,985	95,378	139,882	147,333	141,610	190,734
TOTAL TAXES	2,371,732	2,384,300	2,557,852	2,470,053	2,391,041	2,402,521	2,490,036	2,731,848	2,798,728	3,029,303	3,209,273

Table 4-29 (Continued)

Local Fund Revenues, FY1991-FY2001

(\$ thousands)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Business Licenses & Permits	15,799	21,123	25,868	29,202	29,943	29,663	28,268	31,050	28,607	24,929	21,767
Non-Business Licenses & Permits	17,198	20,733	18,696	19,896	17,640	19,737	17,221	17,073	17,927	18,825*	19,627
Total Licenses & Permits	32,997	41,856	44,564	49,098	47,583	49,400	45,489	48,123	46,534	43,754	41,394
Fines and Forfeitures	53,026	51,860	51,845	48,107	42,447	40,792	51,664	53,177	47,688	53,216	57,052
Parking Meters	12,558	13,468	13,229	12,954	12,889	9,681	5,766	7,082	12,784	11,721	11,721
Other Charges	39,113	43,952	39,674	39,150	39,798	36,353	38,044	27,670	18,271	25,536	52,217
Total Charges for Services	51,671	57,420	52,903	52,104	52,687	46,134	43,810	34,752	31,055	37,257	63,938
Interest Income	26,645	23,255	7,171	7,995	17,994	13,917	18,599	32,478	41,289	12,779	33,317
Unclaimed Property	6,573	15,303	12,614	13,904	13,856	16,230	17,688	25,908	31,511	28,042	19,006
Other Revenues	15,216	13,693	12,975	25,353	21,984	11,870	34,642	40,750	13,940	61,337	40,898
Total Misc. Revenues	48,434	52,251	32,760	47,252	53,834	42,017	70,919	99,136	86,740	102,158	93,221
TOTAL NON-TAX REVENUES	186,128	203,387	182,073	196,561	196,551	178,344	211,882	235,188	212,017	236,385	255,605
TOTAL TAX & NON-TAX REVENUES	2,557,860	2,587,687	2,739,925	2,666,614	2,587,592	2,580,865	2,701,918	2,967,036	3,010,745	3,265,688	3,464,878
Lottery Transfer	45,700	48,500	66,875	69,050	85,100	75,250	69,200	81,300	64,225	69,450	83,925
Federal Payment	625,231	643,772	635,930	647,930	660,000	660,000	665,702	198,000	0	0	0
TOTAL GENERAL FUND REVENUE	3,228,791	3,279,959	3,442,729	3,383,594	3,332,692	3,316,114	3,438,467*	3,246,336	3,074,970	3,335,138	3,548,803

Source: Comprehensive Annual Financial Report (various years); amounts for FY 1998 and 2000 are reported net of transfers to the Convention Center Fund.

Note: FY 1997 Total Revenue included \$1.647 million from the sale of surplus property.

*Non-Business Licenses was derived from the difference between the total Licenses and Permits and the reported R*STARS Business Licenses and Permits Total.

Table 4-30

Non-Tax Revenue, by Source, FY 2001-2003

(\$ thousands)

Comptroller Object Code	Object Title	Actual FY 2001	Revised Estimate FY 2002	Original Estimate FY 2003
BUSINESS LICENSES AND PERMITS				
3001	INSURANCE LICENSE	3,062	1,860	3,780
3002	ELECTRIC LICENSE	5	5	2
3006	HACKERS LICENSE	262	270	270
3007	SECURITY BROKER FEE	3,206	2,639	2,601
3007	SEC REGISTRATION FEE	7,322	8,400	9,800
3009	SELF-UNLOADING PERMIT	321	300	308
3010	OTHER BUSINESS LICENSE	1,847	4,415	2,810
3012	BUILDING STRUCTURES & EQUIPMENT	10,091	8,270	8,270
3013	CERTIFICATE OF OCCUPANCY	379	267	273
3014	REFRIGERATION & PLUMBING PERMIT	1,341	1,230	1,261
3015	ELECTRICAL PERMIT	1,620	1,300	1,333
3016	PUBLIC SPACE EXCAVATION PERMIT	586	308	315
3017	ALCOHOLIC BEVERAGE LICENSE	1,438	0	0
3020	BOXING / WRESTLING	(0)	56	58
3021	VENDOR BONDS	855	1,200	1,200
4879	INVESTMENT ADVISORS ACT	230	238	238
TOTAL BUSINESS LICENSES AND PERMITS		32,566	30,758	32,519
NONBUSINESS LICENSES & PERMITS				
3100	DRIVERS LICENSE	2,021	1,855	1,850
3110	BIKE REGISTRATION	1	1	1
3120	BOAT REGISTRATION	114	130	130
3130	OTHER NONBUSINESS LICENSE & PERMITS	19	21	21
3140	RECIPROCITY PERMIT	120	72	70
3150	PERSONALIZED TAGS-RSC 9100	35	0	0
3150	DCTC ISSUANCE-RSC 9100	187	0	0
3150	TEMP TAGS-RSC 9100	468	0	0
3150	TRANSFER TAGS-RSC 9100	90	0	0
3150	MOTOR VEHICLE REGISTRATION	16,564	15,070	15,000
N/A	OTHER			
TOTAL NONBUSINESS LICENSES & PERMITS		19,619	17,149	17,072
TOTAL LICENSES & PERMITS		52,185	47,907	49,591

Table 4-30 (Continued)

Non-Tax Revenue, by Source, FY 2001-2003

(\$ thousands)

Comptroller Object Code	Object Title	Actual FY 2001	Revised Estimate FY 2002	Original Estimate FY 2003
FINES & FORFEITURES				
5000	HACKERS FINES	9	12	12
5010	TRAFFIC FINES - RSC 1501	48,065	49,000	60,300*
5010	RED LIGHT CAMERAS	6,830	6,000	6,000
5010	SPEEDING CAMERAS	0	8,000	12,000
5020	SALE OF ABANDONED PROP	3	0	0
5030	BOOTING FEES	603	528	500
5040	TOWING FEES-RSC 1505	263	252	250
5050	IMPOUNDMENT FEES-RSC 1506	155	143	143
5060	FINES/FORFEITURES	189	0	0
N/A	OTHER			
TOTAL FINES & FORFEITURES		56,117	63,935	79,205*
MISCELLANEOUS				
5300	WASA - P.I.L.O.T.	7,856	8,000	8,000
5600	INTEREST INCOME	33,317	17,765	25,991
6100	SALE OF SURPLUS PROP	6,411	11,828	394
6101	BUS SHELTER ADVERTISEMENT	1,621	1,600	1,500
6103	REIMBURSEMENTS	3,531	3,001	2,820
6106	OTHER REVENUE	3,812	2,535	2,281
6106	MISCELLANEOUS OTHER REV	62	61	62
6106	EMPLOYEES CAFETERIA	6	0	0
6107	CIVIL INFRACTIONS	452	460	472
6111	OTHER REVENUE	17,332	0	0
6118	PRIOR YEAR COST RECOVERY	(184)	0	0
5700	UNCLAIMED PROPERTY INTERNAL AUDIT	19,006	14,100	16,250
N/A	OTHER			
TOTAL MISCELLANEOUS		93,221	59,350	57,770
CHARGES FOR SERVICES				
3202	BOILER INSPECTION PERMITS	42	50	51
3204	ELEVATOR INSPECTION	745	328	336
3206	FINGERPRINTS, PHOTOS	126	120	122
3207	CHARGES FOR SERVICES-OTHER	1,071	1,064	1,059
3208	REPRODUCTION OF REPORTS	1,174	1,056	999
3209	EMERGENCY AMBULANCE	4,923	5,000	5,000

Table 4-30 (Continued)

Non-Tax Revenue, by Source, FY 2001-2003

(\$ thousands)

Comptroller Object Code	Object Title	Actual FY 2001	Revised Estimate FY 2002	Original Estimate FY 2003
3210	TRANSCRIPT OF RECORDS	222	220	224
3211	FIREARM USER FEE	5	5	5
3212	POLICE HAULING/STORAGE	0	30	31
3400	PARKING METERS	11,721	10,080	10,000
3320	RIGHT-OF-WAY RENTALS	31,038	18,000	0
3214	MOTOR VEHICLE INSPECT-RSC 1258	46	0	0
3215	MOTOR VEHICLE TITLES	1,555	1,344	1,300
3216	SOLID WASTE DISPOSAL FEES	817	603	600
3219	WHARVES & MARKETS	29	29	29
3220	SURVEYOR FEES	224	200	205
3221	RECORDATION FEE-RSC 1275	3,826	3,300	3,300
3222	CORP RECORDATION	6,823	3,588	6,500
3223	PARKING FEES	0	354	354
3223	PARKING FEES/PERMITS	1,048	855	954
3224	ST & GUTTER ASSESSMENT -1319	2	0	0
3227	CONDO/COOP CERTIFICATE	6	3	3
3228	CONDO REGISTRATION	12	30	15
3210	TRANSCRIPT OF RECORDS	209	0	0
3210	TAX CERTIFICATES	193	180	180
3210	DUPLICATE BILL FEES	16	1	1
3320	LEASE PORTFOLIO		2,492	2,567
6108	COCOT REGISTRATION	14	12	10
3201	HOME OCCUPATION LICENSE	77	70	72
3200	TELECO REGISTRATION	38	35	30
N/A	WASA-STORMWATER		3,100	3,100
N/A	OTHER	(2)	0	0
N/A	RENTAL OF EQUIPMENT-ALLOCABLE	(1,038)	0	0
TOTAL CHARGES FOR SERVICES		64,962	52,149	37,047
TOTAL NON TAX REVENUE		266,485	223,341	223,613*
OTHER				
3235	TOBACCO SETTLEMENT	13,289	0	0
6104	LOTTERY ADMINISTRATION	83,925	70,000	72,900
TOTAL OTHER		97,214	70,000	72,900

* Excludes \$7.8 million that would be generated under the Mayor's proposal to increase fines for parking violations.

Appendix

Tax Expenditure Budget

The District of Columbia Code requires the Chief Financial Officer to prepare, and the Mayor to include in the budget submission to the Council, a Tax Expenditure Budget for Fiscal Year 2003 and biennially afterwards. This Appendix contains the Fiscal Year 2003 Tax Expenditure Budget.

Background

Tax expenditures are revenue losses that arise from provisions of the District's tax laws that reduce the tax liabilities of groups of taxpayers to achieve public objectives. They are called expenditures because their public purposes could be achieved, but perhaps less efficiently, by D.C. Government outlays. Including the estimated revenue losses in the budget submission meets two needs. First, it makes it easy to see the total resources devoted to various purposes through tax reductions and outlays combined; second, associating each tax expenditure with its objectives serves rational consideration of the continuing desirability of that tax expenditure.

Tax expenditures take the following forms: exclusions of particular kinds of income, property, sales, etc., from taxation; exemptions of particular classes of individuals or entities from taxation; deductions from income; deferrals of taxation; credits against tax liabilities; and favorable tax rates. Determining whether any particular exclusion, deduction, or credit constitutes a tax expenditure is a matter of judgment. There are several possible considerations: whether the particular provision is a departure from a "normal" tax structure; whether the provision reduces taxes for particular types of persons or entities; and whether there is a plausible public purpose for the provision. In this tax expenditure budget, we have relied on all of these considerations. In any case, characterizing a provision as a tax expenditure is not intended to indicate that the provision is undesirable.

The Federal Government has been doing tax expenditure analysis since the 1970s. The

Legislative and Executive branches publish lists of income tax expenditures together with the amounts of revenue lost for each item. The two lists differ somewhat, because of differing views of a "normal" income tax. Since the D.C. income and franchise taxes incorporate many of the rules of the federal income tax, many of the federal tax expenditures "flow through" to the District's tax revenue. (Many of the federal tax expenditures are in the form of credits or preferential tax rates, which do not generally flow through to the District's income tax revenue.)

Findings

The provisions of D.C. tax law identified as tax expenditures for this budget are shown in Table 1. They are grouped by major categories of objectives, and by the type of tax (income, sales, etc.). The income/franchise tax expenditures that flow from the federal income tax rules are grouped together and identified by the word "federal" in their descriptions. The tax expenditures in italics are those that have been added during the last two years or were under consideration by the D.C. Council as of May 1, 2002.

Objectives

For this budget, the Office of the Chief Financial Officer has not conducted extensive research to determine the purposes of all the tax expenditures. For many, the objective seems obvious; for others, the objective is less clear. In the latter cases, we have simply included the expenditures in an "other objectives" category.

The D.C. Government's objectives in permitting federal tax expenditures to flow through to D.C. revenue require particular discussion. Some of the federal items relate to particular industries: oil and gas, agriculture, and timber, for example. For the Federal Government, the purpose of these provisions presumably is support of those industries. But, these particular industries are not present in the District. However, District residents may invest in shares

of partnerships or of S-corporations that pass the special federal exclusions or deductions for those industries through to the D.C. investors. These exclusions and deductions then reduce D.C. revenue. What is the District's purpose for permitting this reduction? A likely possibility is tax simplification for D.C. residents. That is, D.C. residents who take advantage of these benefits on their federal returns are not required to take the time or spend the money to remove them for their District returns, and the Office of tax and Revenue is not required to verify their removal.

Another group of federal tax expenditures poses a similar puzzle: the exclusion of interest income on state and local "private activity" bonds that support particular public purposes. Among the particular purposes is the construction of privately-owned wharves and docks, of which there are, and are likely to be, none in D.C. Residents of the District that invest in such bonds issued by, say, Oregon are not required to report the interest income on their D.C. tax returns. As with the provisions discussed in the previous paragraph, the purpose of allowing this exclusion could be tax simplification. In this case, it might also be federalism. That is, the District supports Oregon's sale of bonds to finance construction of wharves and docks in anticipation that Oregon, through incorporation of the federal private activity bond exclusions in the Oregon income tax, will support D.C. sale of bonds to finance rental housing.

A final example will illustrate the uncertainty of classifying tax expenditures by their objectives. The objective category "income security and social services" includes numerous items that benefit individuals with low income or in circumstances that indicate need for assistance. Some examples are: exclusion of public assistance income; exclusion of military disability pensions; itemized deduction for casualty losses; and additional exemptions for blind taxpayers. Two additional items are: D.C. low-income credit and D.C. exclusion of Social Security income taxed by the Federal Government. The D.C. low-income credit reduces the D.C. tax liability to zero for taxpayers whose income is low enough that their federal liabilities are zero, given the number of their personal exemptions. Only low-

income citizens receive the advantage of this credit. The D.C. exclusion of Social Security income applies only to taxpayers who receive social security benefits and whose total income is high enough that federal tax law includes some portion of those benefits in taxable income. For example, for Tax Year 2001, a married couple with \$50,000 in social security income and \$35,000 in other types of income must report about half of their social security income as taxable. From the point of view of tax expenditures to improve the income distribution, these two items work in opposite directions. One increases the after tax income of very low-income individuals; the other increases after tax income of very high-income individuals. A possible explanation for this is that the social security exclusion is not per se intended to increase the incomes of high-income people, but is intended to discourage retired individuals from emigrating from the District and taking all of their taxable income—social security and other—with them. The tax simplification purpose does not seem plausible here because the recipients of social security income must go through a fairly elaborate procedure to determine what part of that income must be reported on their federal returns. D.C.'s requiring them to remove it adds to complexity.

The Estimates

Each estimate in Table 1 is based on the concept that tax revenue would increase if the particular preference were repealed. Accordingly, Table 1 does not contain a total or any subtotals. That is, we do not have estimates of the amount of revenue that would be gained by repealing any collection of tax preferences. To do so would require estimating numerous interactions among preferences that would affect total revenue if a group of preferences were simultaneously repealed. For example, the tax expenditure estimate for the homestead exemption is an estimate of the real property tax revenue that would be gained by repeal of the homestead exemption, offset by the reduction in income tax revenue that would occur—due to the increased amount of credit for real property tax paid. Likewise, the tax expenditure estimate for the credit against the income tax for real property tax paid by low-income home-

owners accounts for the fact that the homestead provision reduces the amount of that credit. Since each of these provisions reduces the effect of repealing the other, a proper estimate of simultaneous repeal would be larger than the sum of the estimates of the two items in isolation.

Other Information

The D.C. Code also requires that the tax expenditure budget include, for each tax expenditure: a description of its objective, an analysis of whether it is meeting its objective, and an analysis of the distribution of the tax burden and on the administration of the tax system.

Table 1

Tax Expenditures by Objective Category and Type of Tax

Housing

Income/Franchise Tax

federal exclusion of interest on state and local "private activity" bonds issued to support:

rental housing

owner-occupied housing mortgage subsidy

veterans' housing

federal exclusion of capital gains income on sale of principal residence

federal provision for accelerated depreciation on rental housing

federal deferral of income from post 1987 installment sales

federal itemized deduction for mortgage interest on owner-occupied dwellings

federal itemized deduction for state and local property tax on owner-occupied dwellings

D.C. credit for rehabilitation of a dwelling in a Historic Preservation District

D.C. credit for certain low income homeowners for increase in real property tax

Real Property Tax

exemptions for property associated with housing

abatement and credits for rehabilitation of single family residential property located in an enterprise zone

50 percent abatement for properties whose owner engaged in a Housing Assistance Payment Contract

Deed Recordation, Transfer and Economic Interest Taxes

exemption for transfers:

to non-profit housing entities

to or from a cooperative housing association

of security interest in residential property with 5 or fewer units

Education

Income/Franchise Tax

federal exclusion of interest on state and local "private activity" bonds issued to support:

student-loans

private nonprofit educational facilities

federal exclusion of:

interest on savings bonds redeemed to finance educational expenses

scholarship and fellowship income

employer-provided educational assistance

federal deferral for contributions to:

state prepaid tuition plans

education Individual Retirement Accounts

federal deduction for student-loan interest

federal parental personal exemption for students age 19 or over

federal itemized deduction for charitable contributions to educational entities

Real Property Tax

D.C. exemptions for property associated with education

Health and Healthcare

Income/Franchise Tax

federal exclusion of interest on state and local "private activity" bonds issued to support hospital construction

federal exclusion of employer contributions for medical insurance premiums and medical care

federal deduction for medical insurance premiums of self-employed

federal deduction for contributions to medical Savings Accounts

federal itemized deduction for charitable contributions to health related entities

federal itemized deduction for medical expenses

Insurance Premium Tax

D.C. exemption for health insurance companies that provide subsidized open enrollment coverage

Real Property Tax

D.C. exemptions for property associated with Health and healthcare

Economic Development

Income/Franchise Tax

federal exclusion of interest on state and local "private activity" bonds issued to support:

energy facilities

Table 1 (Continued)

Tax Expenditures by Objective Category and Type of Tax

airport, dock, and similar facilities	Income Security and Social Services
small manufacturing facilities	Income/Franchise Tax
federal treatment of capital gains on small corporation stock	federal exclusion of:
federal provision for expensing of certain small investments (normal tax method)	interest on life insurance savings
federal provision for accelerated depreciation of buildings other than rental housing	certain foster care payments
federal provision for accelerated depreciation of machinery and equipment	workers' compensation benefits
federal provision for amortization of start-up costs	special benefits for disabled coal miners
federal provision for deduction of loss from sale of small business corporation stock	public assistance benefits
federal exception from passive loss rules for \$25,000 of rental real estate loss	railroad retirement system benefits
federal provision for excess bad debt reserves of financial institutions	Social Security benefits for retired workers
federal incentives for businesses in qualified investment in empowerment zones	Social Security benefits for disabled
federal incentives for businesses in D.C.'s empowerment zone	Social Security benefits for dependents and survivors
D.C. economic development zone credits	veterans pensions
exclusion of portfolio income of hedge fund (under consideration)	Montgomery GI Bill education benefits
Real Property Tax	assistance for adopted foster children
deferral of tax for the Bureau of National Affairs	military disability pensions
10-year exemption for certain supermarket properties	income of trusts to finance supplementary unemployment benefits
zero growth in tax for properties 50% occupied by qualified high technology companies	veterans death benefits and disability compensation
deferral of tax for the Mandarin Hotel	employer contributions for premiums on group term life insurance
deferral of tax for Gallery Place	employer contributions for premiums on accident and disability insurance
exemption for Uptown Bakers (under consideration)	employer provided child care
Sales Tax	employer sponsored adoption assistance
exclusion of energy products used in manufacturing	portion of Social Security income included on Federal return
exclusion of materials used in war memorials	portion (up to \$3000) of federal and D.C. pension income
exclusion of materials used in supermarkets	employer contributions to Employer pension plans
deferral of tax for the Mandarin Hotel	employer contributions to Keogh plans
deferral of tax for Gallery Place	employee contributions to Individual Retirement Accounts
Deed Recordation, Transfer and Economic Interest Taxes	federal itemized deduction for casualty losses
exemptions for the Mandarin Hotel	federal deduction for workers' compensation insurance premiums
exemptions for Gallery Place	federal earned income credit
	federal child and dependent care credit
	federal disability income credit (flows through as a deduction on D.C. return)
	D.C. additional exemption for blind
	D.C. additional exemption for elderly

Table 1 (Continued)

Tax Expenditures by Objective Category and Type of Tax

D.C. low-income credit	Public Safety
D.C. credit for property tax	Income/Franchise Tax
D.C. exclusion of social security income included in federal gross income	D.C. police housing credit
Table 1 (Continued)	Environmental Protection
Insurance Premium Tax	Income/Franchise Tax
exclusion of annuity premium income	federal exclusion of interest on state and local "private activity" bonds issued to support water, sewage, and hazardous waste facilities
Real Property Tax	federal exclusion of conservation subsidies provided by public utilities
senior citizen exemption	federal provision for expensing of environmental remediation costs
deferral of tax for owner occupied housing with significant tax increase	federal deduction for part of cost of clean-fuel burning vehicles
exemptions for property associated with income security and social services	D.C. credit for clean-fuel vehicles and fueling facilities (under consideration)
lower income homeownership tax abatement	Real Property Tax
Sales Tax	condominium trash credit
exemptions of sales	Other Objectives
of groceries	Income/Franchise Tax
of medicines, drugs, medical devices	federal exclusion of :
by 501(c)(4) organizations	interest on public purpose State and local bonds [flows through to individual income tax only]
of food at cost by non-profit organizations	benefits, allowances, and certain pay to armed forces personnel
of food and beverages by senior centers to residents	income earned abroad by U.S. citizens
of food purchased with food stamps	certain allowances for Federal employees abroad
Deed Recordation, Transfer, and Economic Interest Taxes	income of foreign sales corporations
exemption for transfers:	step-up basis of capital gains at death
within families	employer paid meals and lodging (other than military)
to a qualifying lower income household	extraterritorial income
Cultural Enrichment	cancellation of indebtedness
Income/Franchise Tax	treatment of forgiven debt of solvent farmers
federal exclusion of parsonage allowances	reimbursed employee parking expenses
federal deduction for charitable contributions, other than education and health	employer-provided transit passes
Real Property Tax	inventory property sales source rules exception
exemptions for property associated with cultural enrichment	credit union income
historic property	income of certain insurance companies owned by tax-exempt organizations
property of cultural enrichment organizations	federal provision for expensing of:
Personal Property Tax	
exemption for works of art lent to the National Gallery of Art	
exemption for sales to free newspapers	

Table 1 (Continued)

Tax Expenditures by Objective Category and Type of Tax

research and experimentation expenditures	Sales Tax
exploration and development costs, fuels	exemption of sales:
multi-period timber growing costs	to the Federal Government
exploration and development costs, nonfuel minerals	to state and local governments
certain agricultural multi-period production costs	to semi-public institutions
certain agricultural capital outlays	to public utility companies
federal deferral of tax on	by public utility companies to residential customers
interest on U.S. savings bonds	Deed Recordation, Transfer and Economic Interest Taxes
	exemption of transfers:
	to or from the Federal Government
	to or from the an entity exempt from real property tax
	by an entity exempt by act of Congress
	involving trusts
Table 1 (Continued)	
income from controlled foreign corporations	
capital construction funds of shipping companies	
gain on sale of farm refineries	
certain income earned overseas by financial firms	
federal carryover basis of capital gains on gifts	
federal step-up basis of capital gains at death	
federal provision of percentage depletion, fuels	
federal provision of percentage depletion, nonfuel minerals	
federal itemized deduction for state and local personal property taxes [flows through to individuals only]	
federal exception from passive loss rules for working interest in oil and gas wells	
D. C. exclusion of parent depository institution loan income	
D.C. exclusion of interest on U.S. obligations or securities	
Real Property Tax	
homestead provision	
exemptions for property associated with Federal Government	